

18-033

ORIGINAL

ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD  
APPLICATION FOR PERMIT

## SECTION I. IDENTIFICATION, GENERAL INFORMATION, AND CERTIFICATION

RECEIVED

This Section must be completed for all projects.

SEP 13 2018

## Facility/Project Identification

Facility Name:	Morris Hospital & Healthcare Centers		
Street Address:	150 W. High Street		
City and Zip Code:	Morris, Illinois 60450		
County:	Grundy	Health Service Area:	009 Health Planning Area: A-013

HEALTH FACILITIES &  
SERVICES REVIEW BOARD

## Applicant(s) [Provide for each applicant (refer to Part 1130.220)]

Exact Legal Name:	Morris Hospital & Healthcare Centers
Street Address:	150 Hight Street
City and Zip Code:	Morris, IL 60540
Name of Registered Agent:	
Registered Agent Street Address:	
Registered Agent City and Zip Code:	
Name of Chief Executive Officer:	Mark Steadham
CEO Street Address:	150 W. High Street
CEO City and Zip Code:	Morris, IL 60450
CEO Telephone Number:	815.942.2932

## Type of Ownership of Applicants

<input checked="" type="checkbox"/> Non-profit Corporation	<input type="checkbox"/> Partnership
<input type="checkbox"/> For-profit Corporation	<input type="checkbox"/> Governmental
<input type="checkbox"/> Limited Liability Company	<input type="checkbox"/> Sole Proprietorship
<input type="checkbox"/> Other	

☐ Corporations and limited liability companies must provide an Illinois certificate of good standing.  
☐ Partnerships must provide the name of the state in which they are organized and the name and address of each partner specifying whether each is a general or limited partner.

APPEND DOCUMENTATION AS ATTACHMENT 1 IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

## Primary Contact [Person to receive ALL correspondence or inquiries]

Name:	Thomas Dohm
Title:	Vice President Professional Services
Company Name:	Morris Hospital & Healthcare Centers
Address:	150 W. High Street, Morris IL, 60450
Telephone Number:	815.942.8422
E-mail Address:	tdohm@morrishospital.org
Fax Number:	

**Additional Contact** [Person who is also authorized to discuss the application for permit]

Name:	Jeffrey Mark
Title:	Consultant
Company Name:	JSMA LLC
Address:	1440 W Taylor St, #743, Chicago, IL 60607
Telephone Number:	312.804.9401
E-mail Address:	jmark@jsma.com
Fax Number:	

**Post Permit Contact**

[Person to receive all correspondence subsequent to permit issuance-THIS PERSON MUST BE EMPLOYED BY THE LICENSED HEALTH CARE FACILITY AS DEFINED AT 20 ILCS 3960]

Name:	Thomas Dohm
Title:	Vice President Professional Services
Company Name:	Morris Hospital & Healthcare Centers
Address:	150 W. High Street, Morris IL, 60450
Telephone Number:	815.942.8422
E-mail Address:	tdohm@morrishospital.org
Fax Number:	

**Site Ownership**

[Provide this information for each applicable site]

Exact Legal Name of Site Owner:	Morris Hospital & Healthcare Centers
Address of Site Owner:	150 W. High Street, Morris, IL 60450
Street Address or Legal Description of the Site: Proof of ownership or control of the site is to be provided as Attachment 2. Examples of proof of ownership are property tax statements, tax assessor's documentation, deed, notarized statement of the corporation attesting to ownership, an option to lease, a letter of intent to lease, or a lease.	
APPEND DOCUMENTATION AS ATTACHMENT 2, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.	

**Operating Identity/Licensee**

[Provide this information for each applicable facility and insert after this page.]

Exact Legal Name:	Morris Hospital & Healthcare Centers		
Address:	150 W. High Street, Morris, IL 60450		
<input checked="" type="checkbox"/> Non-profit Corporation <input type="checkbox"/> For-profit Corporation <input type="checkbox"/> Limited Liability Company <input type="checkbox"/> Other	<input type="checkbox"/> Partnership <input type="checkbox"/> Governmental <input type="checkbox"/> Sole Proprietorship	<input type="checkbox"/>	
<ul style="list-style-type: none"> <li>o Corporations and limited liability companies must provide an Illinois Certificate of Good Standing.</li> <li>o Partnerships must provide the name of the state in which organized and the name and address of each partner specifying whether each is a general or limited partner.</li> <li>o Persons with 5 percent or greater interest in the licensee must be identified with the % of ownership.</li> </ul>			
APPEND DOCUMENTATION AS ATTACHMENT 3, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.			

**Organizational Relationships**

Provide (for each applicant) an organizational chart containing the name and relationship of any person or entity who is related (as defined in Part 1130.140). If the related person or entity is participating in the development or funding of the project, describe the interest and the amount and type of any financial contribution.

APPEND DOCUMENTATION AS **ATTACHMENT 4**, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

**Flood Plain Requirements**

[Refer to application instructions.]

Provide documentation that the project complies with the requirements of Illinois Executive Order #2006-5 pertaining to construction activities in special flood hazard areas. As part of the flood plain requirements, please provide a map of the proposed project location showing any identified floodplain areas. Floodplain maps can be printed at [www.FEMA.gov](http://www.FEMA.gov) or [www.illinoisfloodmaps.org](http://www.illinoisfloodmaps.org). This map must be in a readable format. In addition, please provide a statement attesting that the project complies with the requirements of Illinois Executive Order #2006-5 (<http://www.hfsrb.illinois.gov>).

APPEND DOCUMENTATION AS **ATTACHMENT 5**, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

**Historic Resources Preservation Act Requirements**

[Refer to application instructions.]

Provide documentation regarding compliance with the requirements of the Historic Resources Preservation Act.

APPEND DOCUMENTATION AS **ATTACHMENT 6**, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

**DESCRIPTION OF PROJECT****1. Project Classification**

[Check those applicable - refer to Part 1110.40 and Part 1120.20(b)]

Part 1110 Classification:

- ☐ Substantive
- ☒ Non-substantive

**2. Narrative Description**

In the space below, provide a brief narrative description of the project. Explain **WHAT** is to be done in **State Board defined terms**, **NOT WHY** it is being done. If the project site does NOT have a street address, include a legal description of the site. Include the rationale regarding the project's classification as substantive or non-substantive.

**Morris Hospital Modernization and Infrastructure Renewal Project**

This project proposes clinical modernizations and infrastructure renewals in portions of the Hospital constructed in the 1966, 1981, and 1986. By the time the project is completed, the building ages of the areas affected will range from 56 to 36 years old.

This project is to modernize major clinical services of Morris Hospital to be consistent with contemporary clinical practice and facilities' needs and to provide needed infrastructure renewal. The project includes expansions and reductions in facilities capacities consistent with utilization patterns.

Major modernization is to occur within the clinical services of:

- Emergency Department
- Imaging (selected modalities)
- Non-Invasive Cardiac Diagnostics
- Infusion Therapy

Additionally, selected components of the following clinical services are including:

- Phlebotomy
- Surgery (support areas)
- Pre-Admission Testing (PAT)

Non-Clinical service areas affected include:

- Administration
- Education
- Conference
- Public Space

Additionally, the project is to include Infrastructure Renewal to the deteriorated structures. This work is to include replacement and upgrades, as identified, to:

- Fire protection
- Mechanical systems
- Plumbing systems
- Electrical systems

The project also includes minor additions to individual service areas as detailed under "New Construction."

The total scope of the project is 56,157 SF Total including:

- 39,839 SF Clinical Service Areas
- 16,309 SF Non-Clinical Service Areas

The total Estimated Project Cost is \$36,009,124 Total, including:

- \$19,242,258 Clinical Service Areas
- \$16,766,866 Non-Clinical Areas and Infrastructure

This project involves the modernization of significant portions of existing patient care areas while maintaining ongoing services. As such the construction period is lengthy and is to be phased over time. The completion date is December 31, 2022.

**This is a Non-Substantive project.**

Per Section 1110.20 of the Administrative Code, this project is Non-Substantive in that it does not meet the review criteria for Substantive Review Classification [77 Ill. Adm. Code Part 1110].

**Project Costs and Sources of Funds**

Complete the following table listing all costs (refer to Part 1120.110) associated with the project. When a project or any component of a project is to be accomplished by lease, donation, gift, or other means, the fair market or dollar value (refer to Part 1130.140) of the component must be included in the estimated project cost. If the project contains non-reviewable components that are not related to the provision of health care, complete the second column of the table below. Note, the use and sources of funds must be equal.

<b>Project Costs and Sources of Funds</b>			
<b>USE OF FUNDS</b>	<b>CLINICAL</b>	<b>NONCLINICAL</b>	<b>TOTAL</b>
Preplanning Costs	\$183,993	\$173,301	\$357,293
Site Survey and Soil Investigation	20,000	60,000	80,000
Site Preparation	0	800,000	800,000
Off Site Work			0
New Construction Contracts	1,684,800	0	1,684,800
Modernization Contracts	8,537,018	9,627,821	18,164,838
Contingencies	1,449,033	1,444,173	2,893,206
Architectural/Engineering Fees	858,633	808,737	1,667,370
Consulting and Other Fees	502,617	439,950	942,567
Movable or Other Equipment (not in construction contracts)	4,224,423	1,984,280	6,208,703
Bond Issuance Expense (project related)	527,250	422,750	950,000
Net Interest Expense During Construction (project related)	1,254,492	1,005,854	2,260,346
Fair Market Value of Leased Space or Equipment	0	0	0
Other Costs To Be Capitalized	0	0	0
Acquisition of Building or Other Property (excluding land)	0	0	0
<b>TOTAL USES OF FUNDS</b>	<b>\$19,242,258</b>	<b>\$16,766,866</b>	<b>\$36,009,124</b>
<b>SOURCE OF FUNDS</b>	<b>CLINICAL</b>	<b>NONCLINICAL</b>	<b>TOTAL</b>
Cash and Securities	3,027,021	2,427,071	5,454,092
Pledges			
Gifts and Bequests			
Bond Issues (project related)	16,215,237	14,339,795	30,555,032
Mortgages			
Leases (fair market value)			
Governmental Appropriations			
Grants			
Other Funds and Sources			
<b>TOTAL SOURCES OF FUNDS</b>	<b>\$19,242,258</b>	<b>\$16,766,866</b>	<b>\$36,009,124</b>
<b>NOTE: ITEMIZATION OF EACH LINE ITEM MUST BE PROVIDED AT ATTACHMENT 7, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.</b>			

**Related Project Costs**

Provide the following information, as applicable, with respect to any land related to the project that will be or has been acquired during the last two calendar years:

<p>Land acquisition is related to project <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>Purchase Price: \$ _____</p> <p>Fair Market Value: \$ _____</p>
<p>The project involves the establishment of a new facility or a new category of service  <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>If yes, provide the dollar amount of all <b>non-capitalized</b> operating start-up costs (including operating deficits) through the first full fiscal year when the project achieves or exceeds the target utilization specified in Part 1100.</p> <p>Estimated start-up costs and operating deficit cost is \$ _____.</p>

**Project Status and Completion Schedules**

<b>For facilities in which prior permits have been issued please provide the permit numbers.</b>	
Indicate the stage of the project's architectural drawings:	
<input type="checkbox"/> None or not applicable	<input type="checkbox"/> Preliminary
<input checked="" type="checkbox"/> Schematics	<input type="checkbox"/> Final Working
Anticipated project completion date (refer to Part 1130.140): <u>December 31, 2022.</u>	
Indicate the following with respect to project expenditures or to financial commitments (refer to Part 1130.140):	
<input type="checkbox"/> Purchase orders, leases or contracts pertaining to the project have been executed. <input type="checkbox"/> Financial commitment is contingent upon permit issuance. Provide a copy of the contingent "certification of financial commitment" document, highlighting any language related to CON Contingencies <input checked="" type="checkbox"/> Financial Commitment will occur after permit issuance.	
<b>APPEND DOCUMENTATION AS ATTACHMENT 8, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.</b>	

**State Agency Submittals** [Section 1130.620(c)]

<p>Are the following submittals up to date as applicable:</p> <p><input checked="" type="checkbox"/> Cancer Registry</p> <p><input checked="" type="checkbox"/> APORS</p> <p><input checked="" type="checkbox"/> All formal document requests such as IDPH Questionnaires and Annual Bed Reports been submitted</p> <p><input checked="" type="checkbox"/> All reports regarding outstanding permits</p> <p><b>Failure to be up to date with these requirements will result in the application for permit being deemed incomplete.</b></p>
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## Cost Space Requirements

Provide in the following format, the **Departmental Gross Square Feet (DGSF)** or the **Building Gross Square Feet (BGSF)** and cost. The type of gross square footage either **DGSF** or **BGSF** must be identified. The sum of the department costs **MUST** equal the total estimated project costs. Indicate if any space is being reallocated for a different purpose. Include outside wall measurements plus the department's or area's portion of the surrounding circulation space. **Explain the use of any vacated space.**

Dept. / Area	Cost	Gross Square Feet		Amount of Proposed Total Gross Square Feet That Is:			
		Existing	Proposed	New Const.	Modernized	As Is	Vacated Space
<b>REVIEWABLE</b>							
Medical Surgical							
Intensive Care							
Diagnostic Radiology							
MRI							
Total Clinical							
<b>NON REVIEWABLE</b>							
Administrative							
Parking							
Gift Shop							
Total Non-clinical							
<b>TOTAL</b>							

**APPEND DOCUMENTATION AS ATTACHMENT 9, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.**



**Facility Bed Capacity and Utilization**

Complete the following chart, as applicable. Complete a separate chart for each facility that is a part of the project and insert the chart after this page. Provide the existing bed capacity and utilization data for the latest **Calendar Year for which data is available**. Include **observation days in the patient day totals for each bed service**. Any bed capacity discrepancy from the Inventory will result in the application being deemed **incomplete**.

FACILITY NAME: Morris Hospital & Healthcare Centers			CITY: Morris		
REPORTING PERIOD DATES: From: January 1, 2017 to: December 31, 2017					
Category of Service	Authorized Beds	Admissions	Patient Days*	Bed Changes	Proposed Beds
Medical/Surgical	65	2,852	10,855	0	65
Obstetrics	8	521	1,376	0	8
Pediatrics	4	56	130	0	4
Intensive Care	12	644	2,266	0	12
Comprehensive Physical Rehabilitation	0	0	0	0	0
Acute/Chronic Mental Illness	0	0	0	0	0
Neonatal Intensive Care	0	0	0	0	0
General Long Term Care	0	0	0	0	0
Specialized Long Term Care	0	0	0	0	0
Long Term Acute Care	0	0	0	0	0
Other ((identify))					
TOTALS	89	4,073	16,084	0	89

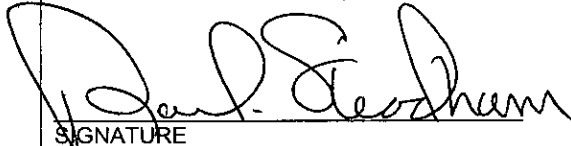
- Includes Observation Days within Units

**CERTIFICATION**

The Application must be signed by the authorized representatives of the applicant entity. Authorized representatives are:

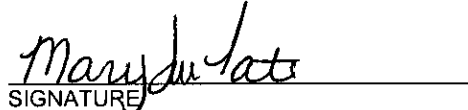
- ☒ in the case of a corporation, any two of its officers or members of its Board of Directors;
- ☐ in the case of a limited liability company, any two of its managers or members (or the sole manager or member when two or more managers or members do not exist);
- ☐ in the case of a partnership, two of its general partners (or the sole general partner, when two or more general partners do not exist);
- ☐ in the case of estates and trusts, two of its beneficiaries (or the sole beneficiary when two or more beneficiaries do not exist); and
- ☐ in the case of a sole proprietor, the individual that is the proprietor.

This Application is filed on the behalf of Morris Hospital & Healthcare Centers in accordance with the requirements and procedures of the Illinois Health Facilities Planning Act. The undersigned certifies that he or she has the authority to execute and file this Application on behalf of the applicant entity. The undersigned further certifies that the data and information provided herein, and appended hereto, are complete and correct to the best of his or her knowledge and belief. The undersigned also certifies that the fee required for this application is sent herewith or will be paid upon request.

  
SIGNATURE

MARK STEADHAM  
PRINTED NAME

PRESIDENT & CEO  
PRINTED TITLE

  
SIGNATURE

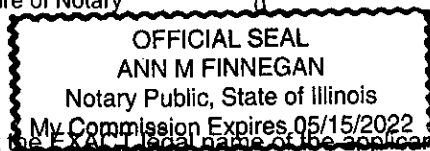
MARY LOU TATE  
PRINTED NAME

CHIEF FINANCIAL OFFICER  
PRINTED TITLE

Notarization:  
Subscribed and sworn to before me  
this 29th day of August, 2018

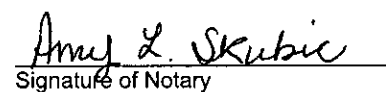
  
Signature of Notary

Seal



\*Insert the EXACT legal name of the applicant

Notarization:  
Subscribed and sworn to before me  
this 29th day of August, 2018

  
Signature of Notary

Seal



### SECTION III. BACKGROUND, PURPOSE OF THE PROJECT, AND ALTERNATIVES - INFORMATION REQUIREMENTS

This Section is applicable to all projects except those that are solely for discontinuation with no project costs.

#### 1110.110(a) – Background of the Applicant

READ THE REVIEW CRITERION and provide the following required information:

##### BACKGROUND OF APPLICANT

1. A listing of all health care facilities owned or operated by the applicant, including licensing, and certification if applicable.
2. A certified listing of any adverse action taken against any facility owned and/or operated by the applicant during the three years prior to the filing of the application.
3. Authorization permitting HFSRB and DPH access to any documents necessary to verify the information submitted, including, but not limited to official records of DPH or other State agencies; the licensing or certification records of other states, when applicable; and the records of nationally recognized accreditation organizations. **Failure to provide such authorization shall constitute an abandonment or withdrawal of the application without any further action by HFSRB.**
4. If, during a given calendar year, an applicant submits more than one application for permit, the documentation provided with the prior applications may be utilized to fulfill the information requirements of this criterion. In such instances, the applicant shall attest that the information was previously provided, cite the project number of the prior application, and certify that no changes have occurred regarding the information that has been previously provided. The applicant is able to submit amendments to previously submitted information, as needed, to update and/or clarify data.

**APPEND DOCUMENTATION AS ATTACHMENT 11, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM. EACH ITEM (1-4) MUST BE IDENTIFIED IN ATTACHMENT 11.**

#### Criterion 1110.110(b) & (d)

##### PURPOSE OF PROJECT

1. Document that the project will provide health services that improve the health care or well-being of the market area population to be served.
2. Define the planning area or market area, or other relevant area, per the applicant's definition.
3. Identify the existing problems or issues that need to be addressed as applicable and appropriate for the project.
4. Cite the sources of the documentation.
5. Detail how the project will address or improve the previously referenced issues, as well as the population's health status and well-being.
6. Provide goals with quantified and measurable objectives, with specific timeframes that relate to achieving the stated goals **as appropriate**.

For projects involving modernization, describe the conditions being upgraded, if any. For facility projects, include statements of the age and condition of the project site, as well as regulatory citations, if any. For equipment being replaced, include repair and maintenance records.

**NOTE: Information regarding the "Purpose of the Project" will be included in the State Board Staff Report.**

**APPEND DOCUMENTATION AS ATTACHMENT 12, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM. EACH ITEM (1-6) MUST BE IDENTIFIED IN ATTACHMENT 12.**

**ALTERNATIVES**

- 1) Identify **ALL** of the alternatives to the proposed project:

Alternative options **must** include:

- A) Proposing a project of greater or lesser scope and cost;
  - B) Pursuing a joint venture or similar arrangement with one or more providers or entities to meet all or a portion of the project's intended purposes; developing alternative settings to meet all or a portion of the project's intended purposes;
  - C) Utilizing other health care resources that are available to serve all or a portion of the population proposed to be served by the project; and
  - D) Provide the reasons why the chosen alternative was selected.
- 2) Documentation shall consist of a comparison of the project to alternative options. The comparison shall address issues of total costs, patient access, quality and financial benefits in both the short-term (within one to three years after project completion) and long-term. This may vary by project or situation. **FOR EVERY ALTERNATIVE IDENTIFIED, THE TOTAL PROJECT COST AND THE REASONS WHY THE ALTERNATIVE WAS REJECTED MUST BE PROVIDED.**
- 3) The applicant shall provide empirical evidence, including quantified outcome data that verifies improved quality of care, as available.

**APPEND DOCUMENTATION AS ATTACHMENT 13, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.**

**SECTION IV. PROJECT SCOPE, UTILIZATION, AND UNFINISHED/SHELL SPACE****Criterion 1110.120 - Project Scope, Utilization, and Unfinished/Shell Space**

READ THE REVIEW CRITERION and provide the following information:

**SIZE OF PROJECT:**

1. Document that the amount of physical space proposed for the proposed project is necessary and not excessive. This must be a narrative and it shall include the basis used for determining the space and the methodology applied.
2. If the gross square footage exceeds the BGSF/DGSF standards in Appendix B, justify the discrepancy by documenting one of the following:
  - a. Additional space is needed due to the scope of services provided, justified by clinical or operational needs, as supported by published data or studies and certified by the facility's Medical Director.
  - b. The existing facility's physical configuration has constraints or impediments and requires an architectural design that delineates the constraints or impediments.
  - c. The project involves the conversion of existing space that results in excess square footage.
  - d. Additional space is mandated by governmental or certification agency requirements that were not in existence when ATTACHMENT B standards were adopted.

Provide a narrative for any discrepancies from the State Standard. A table must be provided in the following format with Attachment 14.

SIZE OF PROJECT				
DEPARTMENT/SERVICE	PROPOSED BGSF/DGSF	STATE STANDARD	DIFFERENCE	MET STANDARD?

APPEND DOCUMENTATION AS ATTACHMENT 14, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

**PROJECT SERVICES UTILIZATION:**

This criterion is applicable only to projects or portions of projects that involve services, functions or equipment for which HFSRB has established utilization standards or occupancy targets in 77 Ill. Adm. Code 1100.

Document that in the second year of operation, the annual utilization of the service or equipment shall meet or exceed the utilization standards specified in 1110.ATTACHMENT B. A narrative of the rationale that supports the projections must be provided.

A table must be provided in the following format with Attachment 15.

UTILIZATION					
	DEPT./ SERVICE	HISTORICAL UTILIZATION (PATIENT DAYS) (TREATMENTS) ETC.	PROJECTED UTILIZATION	STATE STANDARD	MEET STANDARD?
YEAR 1					
YEAR 2					

APPEND DOCUMENTATION AS ATTACHMENT 15, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

**UNFINISHED OR SHELL SPACE:****NOT APPLICABLE**

Provide the following information:

1. Total gross square footage (GSF) of the proposed shell space.
2. The anticipated use of the shell space, specifying the proposed GSF to be allocated to each department, area or function.
3. Evidence that the shell space is being constructed due to:
  - a. Requirements of governmental or certification agencies; or
  - b. Experienced increases in the historical occupancy or utilization of those areas proposed to occupy the shell space.
4. Provide:
  - a. Historical utilization for the area for the latest five-year period for which data is available; and
  - b. Based upon the average annual percentage increase for that period, projections of future utilization of the area through the anticipated date when the shell space will be placed into operation.

APPEND DOCUMENTATION AS ATTACHMENT 16, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.**ASSURANCES:****NOT APPLICABLE**

Submit the following:

1. Verification that the applicant will submit to HFSRB a CON application to develop and utilize the shell space, regardless of the capital thresholds in effect at the time or the categories of service involved.
2. The estimated date by which the subsequent CON application (to develop and utilize the subject shell space) will be submitted; and
3. The anticipated date when the shell space will be completed and placed into operation.

APPEND DOCUMENTATION AS ATTACHMENT 17, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

**SECTION VI. SERVICE SPECIFIC REVIEW CRITERIA**

This Section is applicable to all projects proposing the establishment, expansion or modernization of categories of service that are subject to CON review, as provided in the Illinois Health Facilities Planning Act [20 ILCS 3960]. It is comprised of information requirements for each category of service, as well as charts for each service, indicating the review criteria that must be addressed for each action (establishment, expansion, and modernization). After identifying the applicable review criteria for each category of service involved, read the criteria and provide the required information **APPLICABLE TO THE CRITERIA THAT MUST BE ADDRESSED:**

**M. Criterion 1110.270 - Clinical Service Areas Other than Categories of Service**

1. Applicants proposing to establish, expand and/or modernize Clinical Service Areas Other than categories of service must submit the following information:

2. Indicate changes by Service: \_\_\_\_\_ Indicate # of key room changes by action(s): \_\_\_\_\_

Service	# Existing Key Rooms	# Proposed Key Rooms
<input type="checkbox"/>		
<input type="checkbox"/>		
<input type="checkbox"/>		

3. READ the applicable review criteria outlined below and **submit the required documentation for the criteria:**

Project Type	Required Review Criteria
New Services or Facility or Equipment	(b) – Need Determination – Establishment
Service Modernization	(c)(1) – Deteriorated Facilities
	AND/OR
	(c)(2) – Necessary Expansion
	PLUS
	(c)(3)(A) – Utilization – Major Medical Equipment
	OR
	(c)(3)(B) – Utilization – Service or Facility
<b>APPEND DOCUMENTATION AS ATTACHMENT 31, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.</b>	

The following Sections **DO NOT** need to be addressed by the applicants or co-applicants responsible for funding or guaranteeing the funding of the project if the applicant has a bond rating of A- or better from Fitch's or Standard and Poor's rating agencies, or A3 or better from Moody's (the rating shall be affirmed within the latest 18-month period prior to the submittal of the application):

- Section 1120.120 Availability of Funds – Review Criteria
- Section 1120.130 Financial Viability – Review Criteria
- Section 1120.140 Economic Feasibility – Review Criteria, subsection (a)

## VII. 1120.120 - AVAILABILITY OF FUNDS

The applicant shall document that financial resources shall be available and be equal to or exceed the estimated total project cost plus any related project costs by providing evidence of sufficient financial resources from the following sources, as applicable [Indicate the dollar amount to be provided from the following sources]:

<u>\$5,454,092</u>	a)	Cash and Securities – statements (e.g., audited financial statements, letters from financial institutions, board resolutions) as to:
	1)	the amount of cash and securities available for the project, including the identification of any security, its value and availability of such funds; and
	2)	interest to be earned on depreciation account funds or to be earned on any asset from the date of applicant's submission through project completion;
_____	b)	Pledges – for anticipated pledges, a summary of the anticipated pledges showing anticipated receipts and discounted value, estimated time table of gross receipts and related fundraising expenses, and a discussion of past fundraising experience.
_____	c)	Gifts and Bequests – verification of the dollar amount, identification of any conditions of use, and the estimated time table of receipts;
<u>\$30,555,032</u>	d)	Debt – a statement of the estimated terms and conditions (including the debt time period, variable or permanent interest rates over the debt time period, and the anticipated repayment schedule) for any interim and for the permanent financing proposed to fund the project, including:
	1)	For general obligation bonds, proof of passage of the required referendum or evidence that the governmental unit has the authority to issue the bonds and evidence of the dollar amount of the issue, including any discounting anticipated;
	2)	For revenue bonds, proof of the feasibility of securing the specified amount and interest rate;
	3)	For mortgages, a letter from the prospective lender attesting to the expectation of making the loan in the amount and time indicated, including the anticipated interest rate and any conditions associated with the mortgage, such as, but not limited to, adjustable interest rates, balloon payments, etc.;
	4)	For any lease, a copy of the lease, including all the terms and conditions, including any purchase options, any capital improvements to the property and provision of capital equipment;



	5) For any option to lease, a copy of the option, including all terms and conditions.
_____	e) Governmental Appropriations – a copy of the appropriation Act or ordinance accompanied by a statement of funding availability from an official of the governmental unit. If funds are to be made available from subsequent fiscal years, a copy of a resolution or other action of the governmental unit attesting to this intent;
_____	f) Grants – a letter from the granting agency as to the availability of funds in terms of the amount and time of receipt;
_____	g) All Other Funds and Sources – verification of the amount and type of any other funds that will be used for the project.
<b>\$36,009,124</b>	<b>TOTAL FUNDS AVAILABLE</b>
<b>APPEND DOCUMENTATION AS ATTACHMENT 34, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.</b>	

**SECTION VIII. 1120.130 - FINANCIAL VIABILITY**

All the applicants and co-applicants shall be identified, specifying their roles in the project funding or guaranteeing the funding (sole responsibility or shared) and percentage of participation in that funding.

**Financial Viability Waiver**

The applicant is not required to submit financial viability ratios if:

1. "A" Bond rating or better
2. All of the projects capital expenditures are completely funded through internal sources
3. The applicant's current debt financing or projected debt financing is insured or anticipated to be insured by MBIA (Municipal Bond Insurance Association Inc.) or equivalent
4. The applicant provides a third party surety bond or performance bond letter of credit from an A rated guarantor.

See Section 1120.130 Financial Waiver for information to be provided

APPEND DOCUMENTATION AS **ATTACHMENT 35**, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

The applicant or co-applicant that is responsible for funding or guaranteeing funding of the project shall provide viability ratios for the latest three years for which **audited financial statements are available and for the first full fiscal year at target utilization, but no more than two years following project completion**. When the applicant's facility does not have facility specific financial statements and the facility is a member of a health care system that has combined or consolidated financial statements, the system's viability ratios shall be provided. If the health care system includes one or more hospitals, the system's viability ratios shall be evaluated for conformance with the applicable hospital standards.

	Historical 3 Years			Projected
<b>Enter Historical and/or Projected Years:</b>				
Current Ratio				
Net Margin Percentage				
Percent Debt to Total Capitalization				
Projected Debt Service Coverage				
Days Cash on Hand				
Cushion Ratio				

Provide the methodology and worksheets utilized in determining the ratios detailing the calculation and applicable line item amounts from the financial statements. Complete a separate table for each co-applicant and provide worksheets for each.

**Variance**

Applicants not in compliance with any of the viability ratios shall document that another organization, public or private, shall assume the legal responsibility to meet the debt obligations should the applicant default.

APPEND DOCUMENTATION AS **ATTACHMENT 36**, IN NUMERICAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

**SECTION VIII.1120.140 - ECONOMIC FEASIBILITY**

This section is applicable to all projects subject to Part 1120.

**A. Reasonableness of Financing Arrangements**

The applicant shall document the reasonableness of financing arrangements by submitting a notarized statement signed by an authorized representative that attests to one of the following:

- 1) That the total estimated project costs and related costs will be funded in total with cash and equivalents, including investment securities, unrestricted funds, received pledge receipts and funded depreciation; or
- 2) That the total estimated project costs and related costs will be funded in total or in part by borrowing because:
  - A) A portion or all of the cash and equivalents must be retained in the balance sheet asset accounts in order to maintain a current ratio of at least 2.0 times for hospitals and 1.5 times for all other facilities; or
  - B) Borrowing is less costly than the liquidation of existing investments, and the existing investments being retained may be converted to cash or used to retire debt within a 60-day period.

**B. Conditions of Debt Financing**

This criterion is applicable only to projects that involve debt financing. The applicant shall document that the conditions of debt financing are reasonable by submitting a notarized statement signed by an authorized representative that attests to the following, as applicable:

- 1) That the selected form of debt financing for the project will be at the lowest net cost available;
- 2) That the selected form of debt financing will not be at the lowest net cost available, but is more advantageous due to such terms as prepayment privileges, no required mortgage, access to additional indebtedness, term (years), financing costs and other factors;
- 3) That the project involves (in total or in part) the leasing of equipment or facilities and that the expenses incurred with leasing a facility or equipment are less costly than constructing a new facility or purchasing new equipment.

**C. Reasonableness of Project and Related Costs**

Read the criterion and provide the following:

1. Identify each department or area impacted by the proposed project and provide a cost and square footage allocation for new construction and/or modernization using the following format (insert after this page).

COST AND GROSS SQUARE FEET BY DEPARTMENT OR SERVICE									
Department (list below)	A	B	C	D	E	F	G	H	Total Cost (G + H)
	Cost/Square Foot New	Mod.	Gross Sq. Ft. New	Circ.*	Gross Sq. Ft. Mod.	Circ.*	Const. \$ (A x C)	Mod. \$ (B x E)	
Contingency									
TOTALS									

\* Include the percentage (%) of space for circulation

**D. Projected Operating Costs**

The applicant shall provide the projected direct annual operating costs (in current dollars per equivalent patient day or unit of service) for the first full fiscal year at target utilization but no more than two years following project completion. Direct cost means the fully allocated costs of salaries, benefits and supplies for the service.

**E. Total Effect of the Project on Capital Costs**

The applicant shall provide the total projected annual capital costs (in current dollars per equivalent patient day) for the first full fiscal year at target utilization but no more than two years following project completion.

**APPEND DOCUMENTATION AS ATTACHMENT 37, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.**

**SECTION IX. SAFETY NET IMPACT STATEMENT****NOT APPLICABLE**

**SAFETY NET IMPACT STATEMENT that describes all of the following must be submitted for ALL SUBSTANTIVE PROJECTS AND PROJECTS TO DISCONTINUE STATE-OWNED HEALTH CARE FACILITIES [20 ILCS 3960/5.4]:**

1. The project's material impact, if any, on essential safety net services in the community, to the extent that it is feasible for an applicant to have such knowledge.
2. The project's impact on the ability of another provider or health care system to cross-subsidize safety net services, if reasonably known to the applicant.
3. How the discontinuation of a facility or service might impact the remaining safety net providers in a given community, if reasonably known by the applicant.

**Safety Net Impact Statements shall also include all of the following:**

1. For the 3 fiscal years prior to the application, a certification describing the amount of charity care provided by the applicant. The amount calculated by hospital applicants shall be in accordance with the reporting requirements for charity care reporting in the Illinois Community Benefits Act. Non-hospital applicants shall report charity care, at cost, in accordance with an appropriate methodology specified by the Board.
2. For the 3 fiscal years prior to the application, a certification of the amount of care provided to Medicaid patients. Hospital and non-hospital applicants shall provide Medicaid information in a manner consistent with the information reported each year to the Illinois Department of Public Health regarding "Inpatients and Outpatients Served by Payor Source" and "Inpatient and Outpatient Net Revenue by Payor Source" as required by the Board under Section 13 of this Act and published in the Annual Hospital Profile.

3. Any information the applicant believes is directly relevant to safety net services, including information regarding teaching, research, and any other service.

A table in the following format must be provided as part of Attachment 38.

Safety Net Information per PA 96-0031			
CHARITY CARE			
Charity (# of patients)	Year	Year	Year
Inpatient			
Outpatient			
<b>Total</b>			
<b>Charity (cost in dollars)</b>			
Inpatient			
Outpatient			
<b>Total</b>			
MEDICAID			
Medicaid (# of patients)	Year	Year	Year
Inpatient			
Outpatient			
<b>Total</b>			
<b>Medicaid (revenue)</b>			
Inpatient			
Outpatient			
<b>Total</b>			

APPEND DOCUMENTATION AS ATTACHMENT 38, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

**SECTION X. CHARITY CARE INFORMATION**

Charity Care information **MUST** be furnished for **ALL** projects [1120.20(c)].

1. All applicants and co-applicants shall indicate the amount of charity care for the latest three **audited** fiscal years, the cost of charity care and the ratio of that charity care cost to net patient revenue.
2. If the applicant owns or operates one or more facilities, the reporting shall be for each individual facility located in Illinois. If charity care costs are reported on a consolidated basis, the applicant shall provide documentation as to the cost of charity care; the ratio of that charity care to the net patient revenue for the consolidated financial statement; the allocation of charity care costs; and the ratio of charity care cost to net patient revenue for the facility under review.
3. If the applicant is not an existing facility, it shall submit the facility's projected patient mix by payer source, anticipated charity care expense and projected ratio of charity care to net patient revenue by the end of its second year of operation.

Charity care" means care provided by a health care facility for which the provider does not expect to receive payment from the patient or a third-party payer (20 ILCS 3960/3). Charity Care **must** be provided at cost.

A table in the following format must be provided for all facilities as part of Attachment 39.

CHARITY CARE			
	Year	Year	Year
Net Patient Revenue			
Amount of Charity Care (charges)			
Cost of Charity Care			

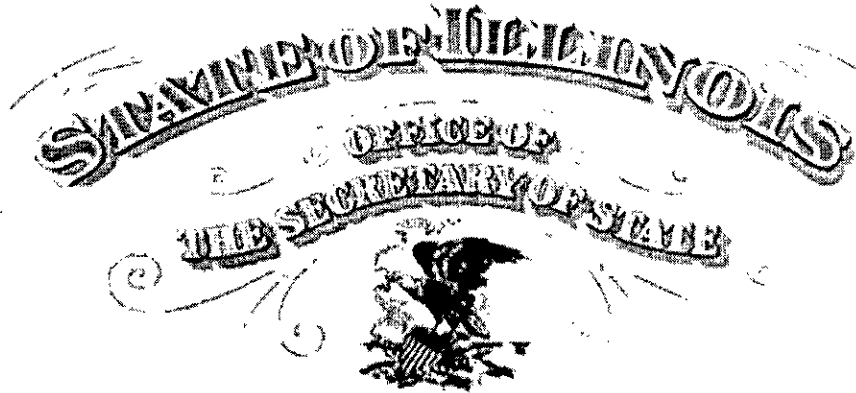
**APPEND DOCUMENTATION AS ATTACHMENT 39, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.**

After paginating the entire completed application indicate, in the chart below, the page numbers for the included attachments:

INDEX OF ATTACHMENTS		
ATTACHMENT NO.		PAGES
1	Applicant Identification including Certificate of Good Standing	24
2	Site Ownership	25
3	Persons with 5 percent or greater interest in the licensee must be identified with the % of ownership.	26
4	Organizational Relationships (Organizational Chart) Certificate of Good Standing Etc.	27
5	Flood Plain Requirements	28-32
6	Historic Preservation Act Requirements	33-37
7	Project and Sources of Funds Itemization	38-39
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9	Cost Space Requirements	41
10	Discontinuation	
11	Background of the Applicant	42-48
12	Purpose of the Project	49
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14	Size of the Project	51
15	Project Service Utilization	52-53
16	Unfinished or Shell Space	
17	Assurances for Unfinished/Shell Space	
18	Master Design Project	
	<b>Service Specific:</b>	
19	Medical Surgical Pediatrics, Obstetrics, ICU	
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21	Acute Mental Illness	
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24	In-Center Hemodialysis	
25	Non-Hospital Based Ambulatory Surgery	
26	Selected Organ Transplantation	
27	Kidney Transplantation	
28	Subacute Care Hospital Model	
29	Community-Based Residential Rehabilitation Center	
30	Long Term Acute Care Hospital	
31	Clinical Service Areas Other than Categories of Service	54-91
32	Freestanding Emergency Center Medical Services	
33	Birth Center	
	<b>Financial and Economic Feasibility:</b>	
34	Availability of Funds	92-93
35	Financial Waiver	
36	Financial Viability	153-154
37	Economic Feasibility	94-97
38	Safety Net Impact Statement	
39	Charity Care Information	98

File Number

1012-284-8



***To all to whom these Presents Shall Come, Greeting:***

*I, Jesse White, Secretary of State of the State of Illinois, do hereby certify that I am the keeper of the records of the Department of Business Services. I certify that*

MORRIS HOSPITAL, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON DECEMBER 05, 1906, ADOPTED THE ASSUMED NAME MORRIS HOSPITAL & HEALTHCARE CENTERS ON OCTOBER 27, 2003, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS IN GOOD STANDING AS A DOMESTIC CORPORATION IN THE STATE OF ILLINOIS.



Authentication # 12/8700514 verifasts until 10/14/2018  
Authenticate at: <http://www.cyberdriveillinois.com>

***In Testimony Whereof, I hereto set  
my hand and cause to be affixed the Great Seal of  
the State of Illinois, this 14TH  
day of OCTOBER A.D. 2017 .***

*Jesse White*

SECRETARY OF STATE



**MORRIS HOSPITAL & HEALTHCARE CENTERS**  
Modernization Project



August 6, 2018

Ms. Courtney Avery  
Administrator  
Health Facilities and Services Review Board  
525 W. Jefferson St.  
Springfield, IL 62761

Dear Ms. Avery:

Morris Hospital & Healthcare Centers hereby certifies that it is the owner of the site and the structure occupied by the Hospital at 150 W. High Street, Morris, IL 60450.

Sincerely,

  
Mark Steadham  
President & CEO

*Subscribed and sworn to  
before me this 6th day  
of August, 2018*

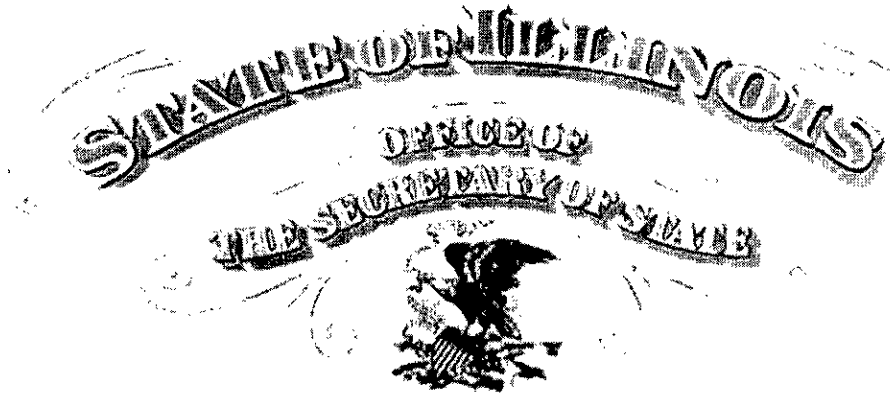
*Ann M. Finnegan*  
Notary Public



*People You Know. Extraordinary Care.*

File Number

1012-284-8



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***In Testimony Whereof, I hereto set***

*my hand and cause to be affixed the Great Seal of the State of Illinois, this 14TH day of OCTOBER A.D. 2017 . . .*

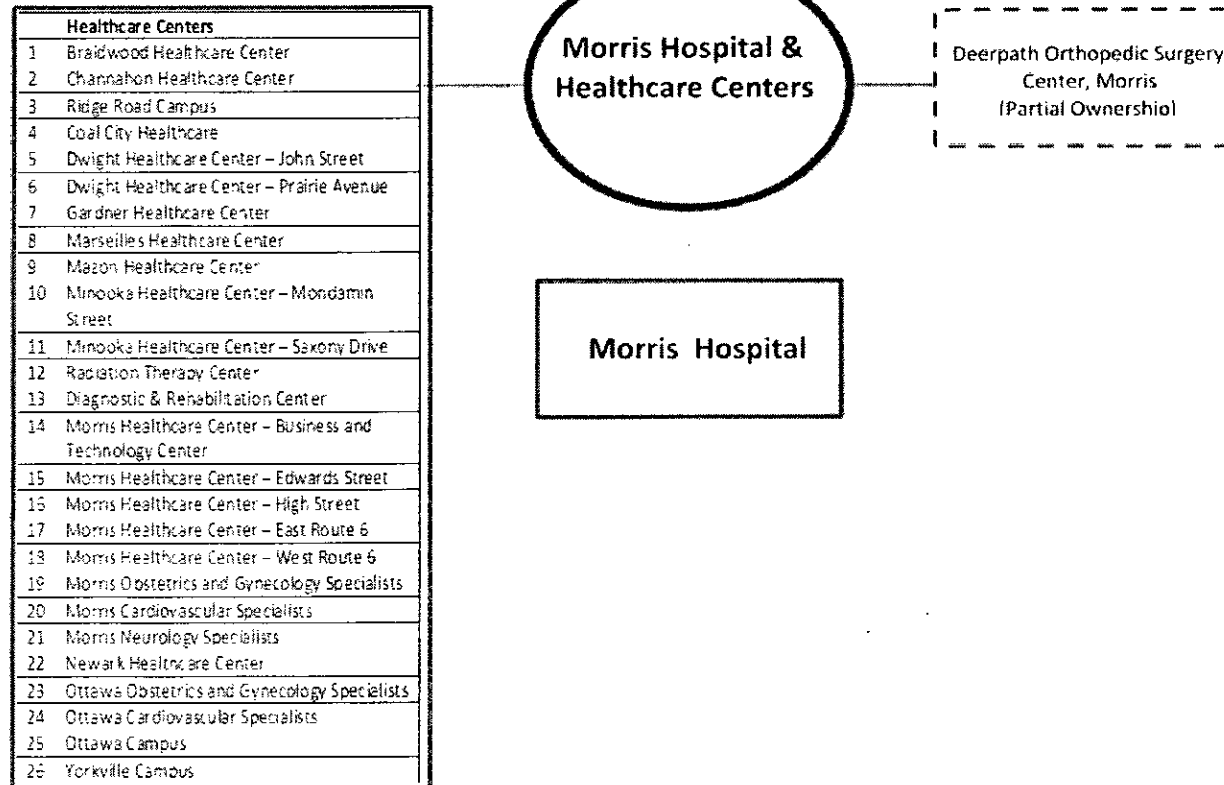
*Jesse White*

SECRETARY OF STATE

Authentication # 1728700914 verifiable until 10-14-2018  
Authentication at: <http://www.cybertrust.illinois.com>

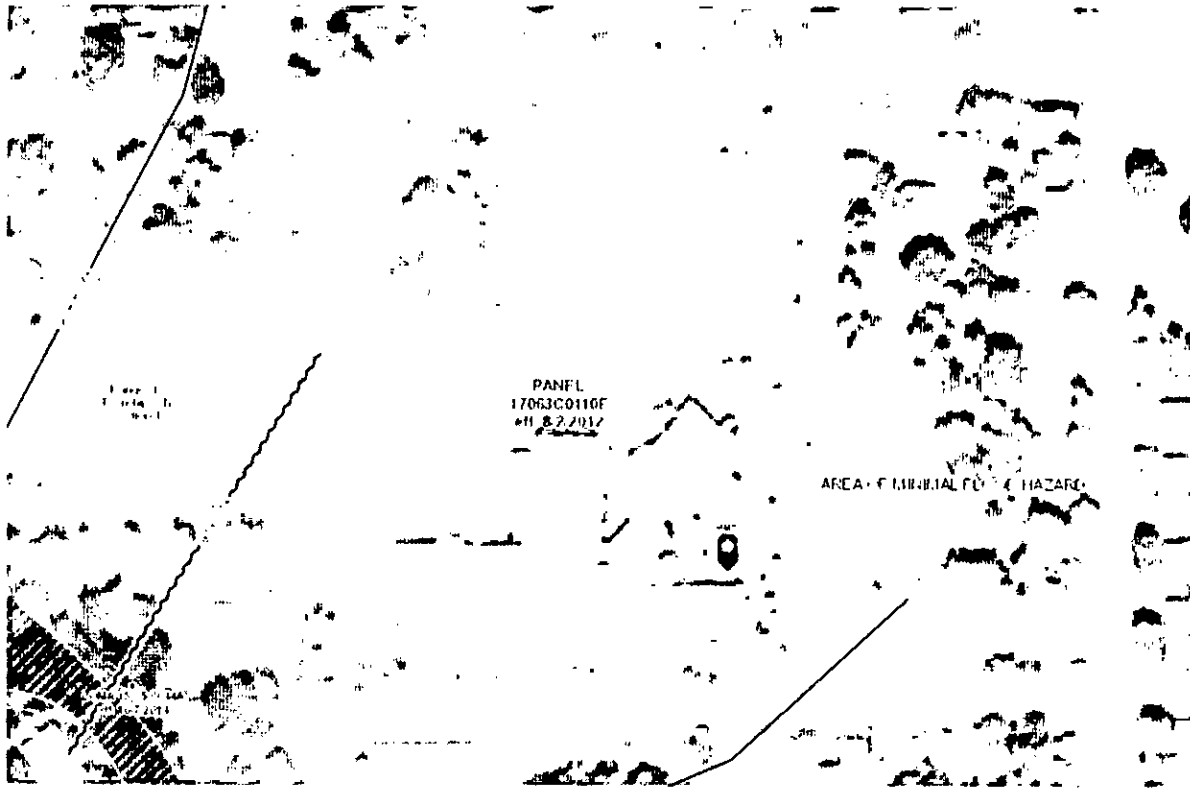
**MORRIS HOSPITAL & HEALTHCARE CENTERS**  
Modernization Project

**ORGANIZATIONAL CHART**



**MORRIS HOSPITAL & HEALTHCARE CENTERS**  
Modernization Project

**FLOOD PLAIN REQUIREMENTS**



<https://fema.maps.arcgis.com/home/webmap/viewer.html?webmap=cbe088e7c8704464aa0fc34eb99e7f30>

A portion of the Morris Hospital campus is located in a flood zone. In the past this has affected the campus. A study by Chamlin Associates, Inc. proposed a scope of work to remediate the effects of a 500 year flood. This work has been completed and is expected to prevent future damage due to flooding.

**MORRIS HOSPITAL & HEALTHCARE CENTERS**  
Modernization Project

hist

**CHAMLIN**

ASSOCIATES, INC.

721 WEST WASHINGTON STREET • P.O. BOX 728 • MORRIS, IL 60450

815-642-1400 • FAX 815-642-1471

mchamlin@chamlin.com

ENGINEERS • SURVEYORS • PLANNERS

November 22, 2013

Mr. Dean Maglanni  
Morris Hospital  
150 West High Street  
Morris, IL 60450

SUBJECT: Improvements at Morris Hospital to  
Protect the Entire Building to the  
500 Year Flood Elevation

Dear Dean:

Improvements have been planned for four (4) specific areas of the hospital which cover the flood prone locations which would be affected by a 500 year flood event (elevation 518.5). All of these plans propose improvements that will protect the hospital to a minimum elevation of 519.3. The finished floor of the hospital is 519.3, which is 0.8 feet above the 500 Year Flood Elevation.

Below is an area by area description of the improvements that will be made. The hospital contractor, Narvick Brothers Construction Company has provided to you the costs to complete these improvements. The improvements are as follows:

AREA NO. 1 - AIR VENTS

Along the south side of the hospital and at the south side of the hospital main entrance on the east side of the building, there are three separate air intake vents which are curbed with concrete. These vents allow fresh air to be drawn into the mechanical rooms in the basement of the hospital, and are vulnerable to the 500 Year Flood Event.

Improvements planned for these three vents include adding a minimum of 12 inches of concrete curb to the height of the vents which will extend them to an elevation above the finished first floor elevation of the hospital (519.3). The curb extensions will include a waterstop which will restrict water from entering the vent through the curb construction joint. Each vent requires 25 to 65 feet of curb extension.

AREA NO. 2 - EMERGENCY ROOM AND DOCTOR ENTRANCE

Between the emergency room entrance and the doctor entrance (both at the northwest area of the hospital) there is an area of the basement which has an exposed basement wall with windows. Currently this area is vulnerable to flood elevations of 515.3.

PERU OFFICE:

ROGER J. CHAMLIN, P.E. • LARRY D. GOSS, P.E. • JAMES K. CLINARD, S.E., P.E. • BRIAN W. HERR, P.E., P.L.S.

DAVE L. ANDER, P.E., P.L.S. • JAMES H. FULL, P.E.

MORRIS OFFICE:

ATTACHMENT 5

## CHAMLIN ASSOCIATES, INC.

November 23, 2013  
Morris Hospital Flood  
Page 2

Improvements planned for this area are: 1) Place a concrete wall around the exposed basement wall area (126 L.F.) with a top elevation of 519.3; 2) Replace the doctor entrance door with a flood proof door.

These improvements will restrict the 500 Year Flood from entering the lower level of the hospital.

### AREA NO. 3 - MEDICAL RECORDS ROOM

The medical records room of the hospital is located in the basement. It has an exposed wall to the outside with windows. This exposed area is vulnerable to the 100 Year Flood elevation.

Improvements in this area include installing a new foundation wall (100 feet in length) which will eliminate the entire window exposure. The wall will be weatherproofed and sealed. The former open area outside the windows will then be filled with clay, the area landscaped. This will protect the lower level to above the 500 Year Flood elevation.

### AREA NO. 4 - LOADING DOCK - RAMP TO LOWER LEVEL

The existing ramp down to the loading dock in the basement of the hospital is the most vulnerable area of the hospital to flooding. It is the location that allowed the April 2013 flood to enter the hospital as it's first point of entry. The top of the ramp is vulnerable to flooding at an elevation of 513.9 which is below the 100 Year Flood Elevation.

Improvements at this location are extensive. The top half of the ramp, and access drives around and to the ramp, will be totally reconstructed. These areas will be raised, which will result in the top of ramp elevation becoming 517.7 elevation. Additionally, at the top of the ramp, a tip-up wall will be installed, which when activated, will automatically lift from its in-pavement position to an upright position. This will create a top of wall elevation of 519.3, being above the 500 Year Flood elevation, and equal to the finished first floor of the hospital.

The remaining walls along the ramp will be raised with concrete extensions to match the tip up wall elevation of 519.3. Additional concrete retaining walls will be added at the location of this tip-up wall to provide a waterproof step for the ends of the tip-up wall.

MORRIS HOSPITAL & HEALTHCARE CENTERS  
Modernization Project

**CHAMLIN**  
ASSOCIATES, INC.

November 22, 2013  
Morris Hospital Flood  
Page 3

The construction in this area includes: 190 feet of existing concrete retaining wall height extension to the 519.3 elevation; 12 feet of new concrete retaining wall construction to the 519.3 elevation; 1100 square yards of removal and replacement of ramp and access drives to a higher elevation; a steel tip-up wall with electric/hydraulic activation system which will make the top of wall elevation 519.3; storm sewer improvements will also be required outside the ramp area due to the pavement being raised.

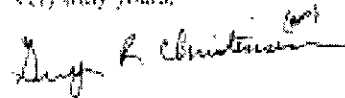
These improvements described above address all of the vulnerable areas of the hospital. If all these are completed the hospital will be protected from direct access by flood waters up to the 519.3 elevation.

I have enclosed a letter from Illinois Department of Natural Resources which provides the 100 and 500 Year Flood elevations at the hospital. This was requested in 2007 when the hospital was contemplating a building expansion.

Also enclosed is a drawing of the proposed ramp reconstruction area. This shows the extent of the wall, pavement, and storm sewer construction. The tip-up wall is also shown.

If there is anything else I can provide for you, please contact me, and I will try to accommodate your needs.

Very truly yours,



Guy R. Christensen

Enclosures

GRC/hp

**MORRIS HOSPITAL & HEALTHCARE CENTERS**  
Modernization Project



**Illinois Department of  
Natural Resources**

One Natural Resources Way • Springfield, Illinois 62702-1270  
<http://www.idnr.state.il.us>

Pat H. Untchewich, Governor  
Sam Flood, Acting Director

May 11, 2007

Mr. Guy Christensen, P.E.  
Chamblis and Associates  
221 West Washington Street  
P.O. Box 768  
Morris, IL 60450

RE: Estimated 100 & 500 Year Flood Elevation, Morris, IL

Dear Mr. Christensen:

Per your request, a 100-year flood elevation of 514' and a 500-year flood elevation of 518.5' has been determined for the proposed hospital addition site in Morris, Illinois. This elevation is approximate and based off of best available information. A more precise determination of the flood elevation would require a more extensive hydrologic and hydraulic study of the area.

Our determination is based on the hydrologic and hydraulic analysis for Nettle Creek, East Fork Nettle Creek, and East Fork Nettle Creek Tributary prepared by the U.S. Army Corps of Engineers and dated November 1991 as well as consultations with State of Illinois Water Resources Engineers. Based on a review of the available topographic information at the site, it appears that backwater from the East Fork of Nettle Creek, may impact this location.

When no other detailed information exists, an estimate of the 100-year flood elevation by the Office of Water Resources may be used by local authorities in accordance with adopted floodplain management ordinances and National Flood Insurance Program guidelines. In addition, this letter and any supporting documentation may be submitted to the Federal Emergency Management Agency to amend or revise the floodplain maps. The proximity of the parcel to a flooding source means that structures on the property could be inundated during an event that exceeds the 100-year flood. If a map change is granted, it is still strongly recommended that flood insurance be purchased for structures on the site. Lower flood insurance rates are available for structures located outside of a mapped floodplain.

Feel free to contact me at (217) 782-4628 if you have any questions or request additional information.

Sincerely,

Paul A. Cassan, CFM  
State Coordinator, National Flood Insurance Program



**MORRIS HOSPITAL & HEALTHCARE CENTERS**  
Modernization Project


**HISTORIC PRESERVATION**

In accordance with Board rules, on August 17, 2018 a request was submitted to the Illinois Historic Preservation Agency (HVP) requesting review of this project and a determination that the project was NOT subject to the Historic Preservation Act. Checking the status of our request on September 4, 2018, in conversation with the HPV, the Hospital was advised that the Agency currently has no permanent review personnel, that the reviews are currently being done by a temporary employee, and that the temporary employee is "way behind" and currently working on submittals from July. So as not to delay the consideration of this project, the FedEx delivery receipt to the HVP as well as a copy the application for review is included below.


Morris Hospital will forward a copy of the HVP's determination to Board staff as soon as it is received.

**Your package has been delivered**

Tracking # 773007059045



Ship date:  
Fri, 8/17/2018  
Jeffrey Mark  
HMM LLC  
CAPS ALSO IL 60501  
US



Delivered

Del. only date:  
Mon 8/20/2018 8:51  
am  
Riverside Station  
Illinois Historic Preservation Office  
1000 E. Lincoln Highway  
York  
SPRINGFIELD, IL 62702  
US

**Shipment Facts**

Our records indicate that the following package has been delivered:

Tracking number:	773007059045
Status:	Delivered 8/20/2018 8:51 AM AMT 1001 1001 K 1001 1001
Reference:	Morris
Signature for:	K 1001 1001
Delivery location:	SPRINGFIELD, IL
Delivered to:	Morris
Service type:	First-Class Priority Overnight
Packaging type:	FedEx Signature
Number of pieces:	1
Weight:	0.50 lbs
Special handling/Services:	Overnight
Standard transit:	8/20/2018 10:30 am

**MORRIS HOSPITAL & HEALTHCARE CENTERS**  
Modernization Project



August 17, 2018

Illinois Historic Preservation Agency  
Preservation Services Division  
Old State Capitol  
Springfield, Illinois 67201

RE: Morris Hospital & Healthcare Centers  
150 W. High St., Morris IL

We are requesting confirmation from your Agency that construction on the above property does not fall under the Preservation Act. The following is provided to assist in making this determination.

1. General project description and address:  
Morris Hospital & Healthcare Centers is proposing a modernization to its existing buildings. This renovation is to include the following departments: Emergency, Surgery, Radiology, Cardiac Catheterization and various administrative areas. The renovation is to occur on the first level of the existing hospital structure, originally constructed in 1960s. Approximately 70,000 square feet are to be renovated in the project.
2. Site map showing the general location of the project (Attachment 1)
3. Photographs of any standing buildings/structure within the project area (Attachment 2)
4. Conceptual plans for the project (Attachment 3)
5. Addresses for buildings/structures, if present:  
150 W. High Street, Morris IL

Please provide your determination by email no later than September 9 to accommodate a COM submittal. If this timeframe is a problem please advise me.

If you require additional information, please contact me by email or at 312.804.9401 or by email at [jmark@jsma.com](mailto:jmark@jsma.com)

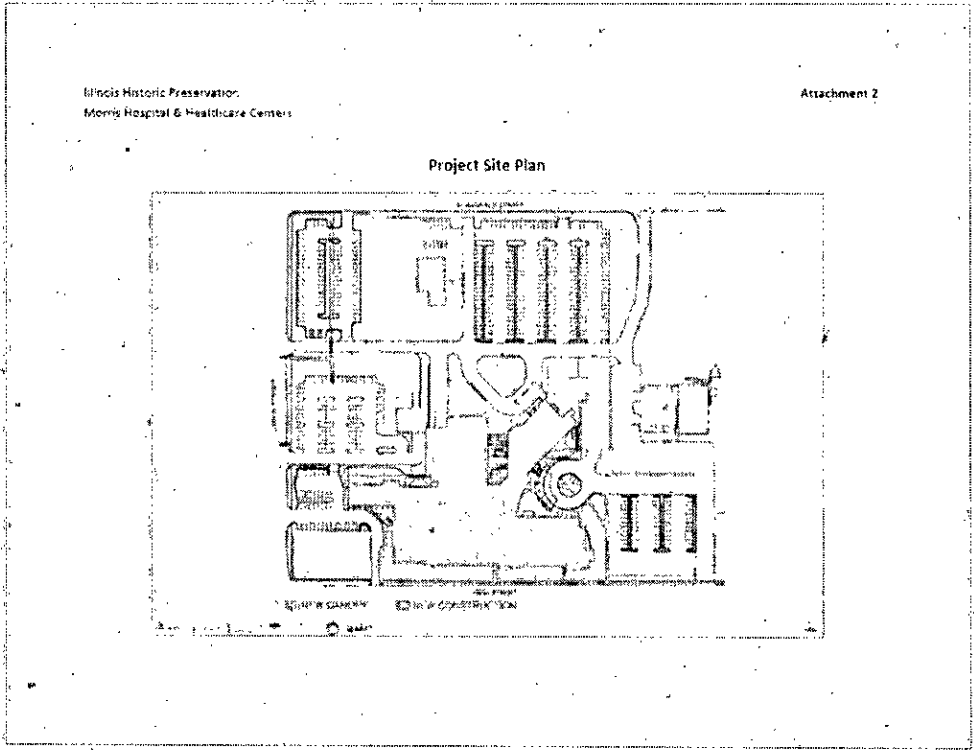
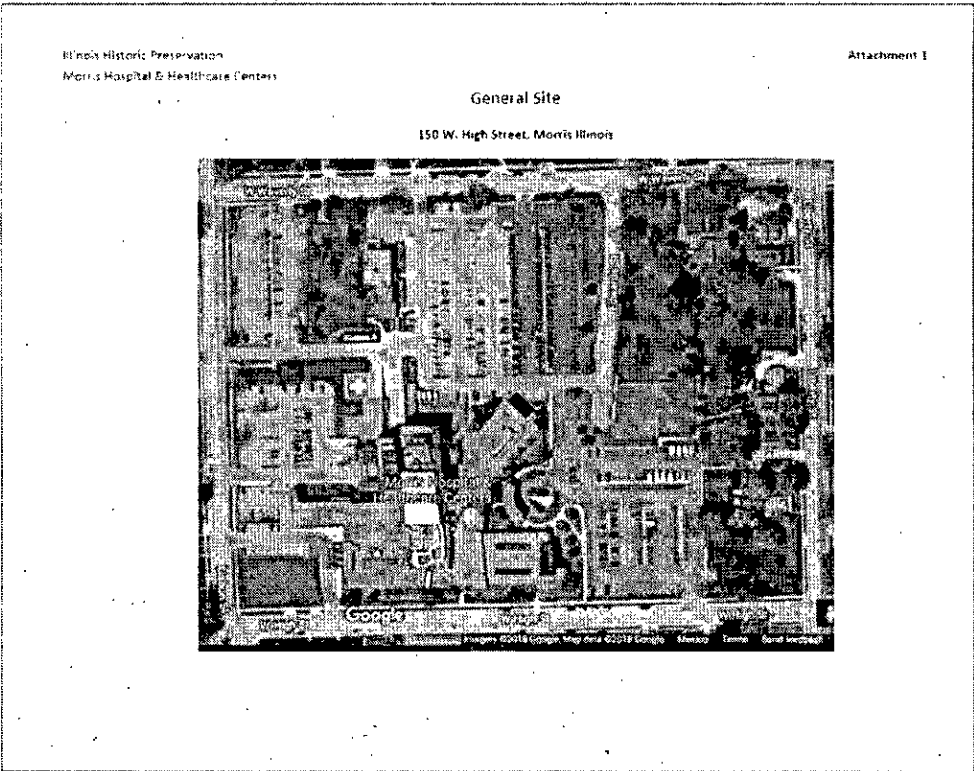
Sincerely

A handwritten signature in dark ink, appearing to read "Jeffrey S. Mark", is written over a horizontal line.

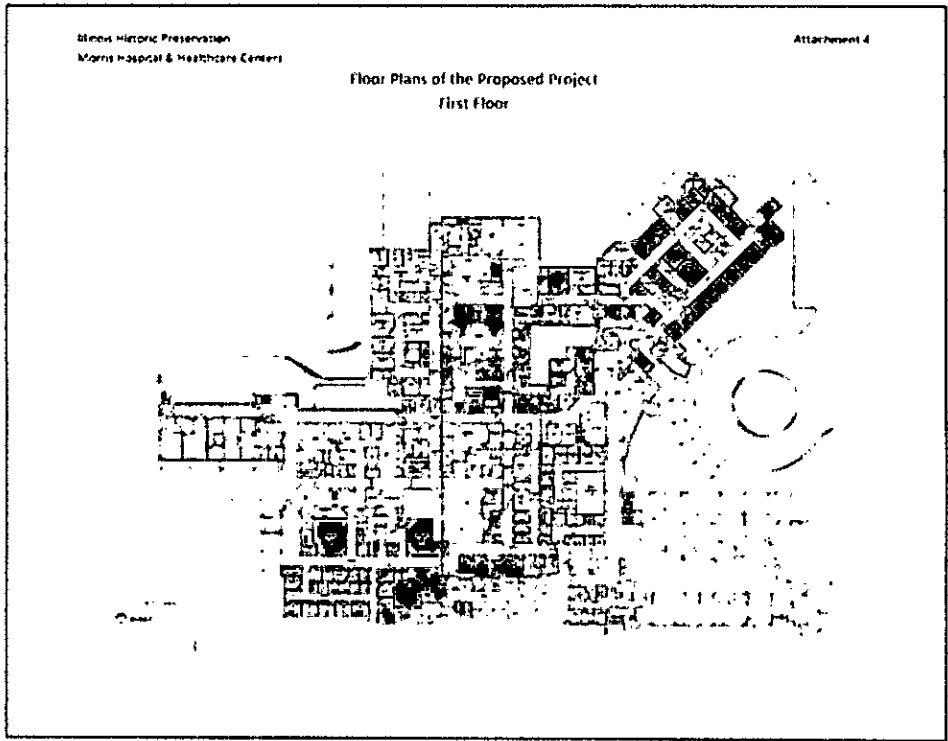
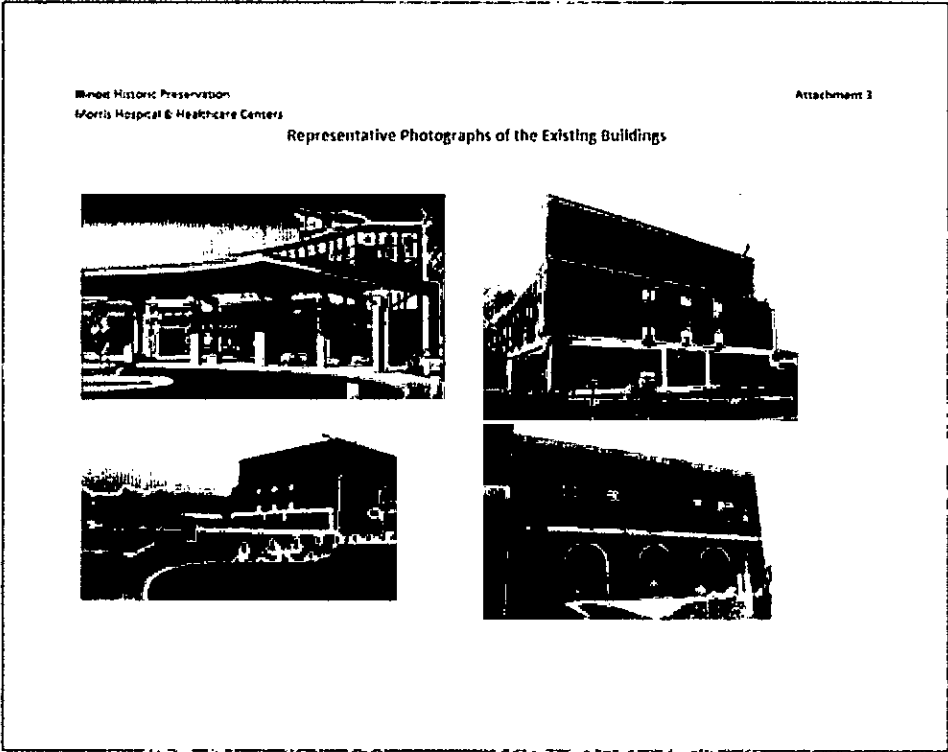
Jeffrey S. Mark  
President

JSMA LLC  
Consultants + Architects  
1440 W. Taylor St., #743  
Chicago, IL 60607

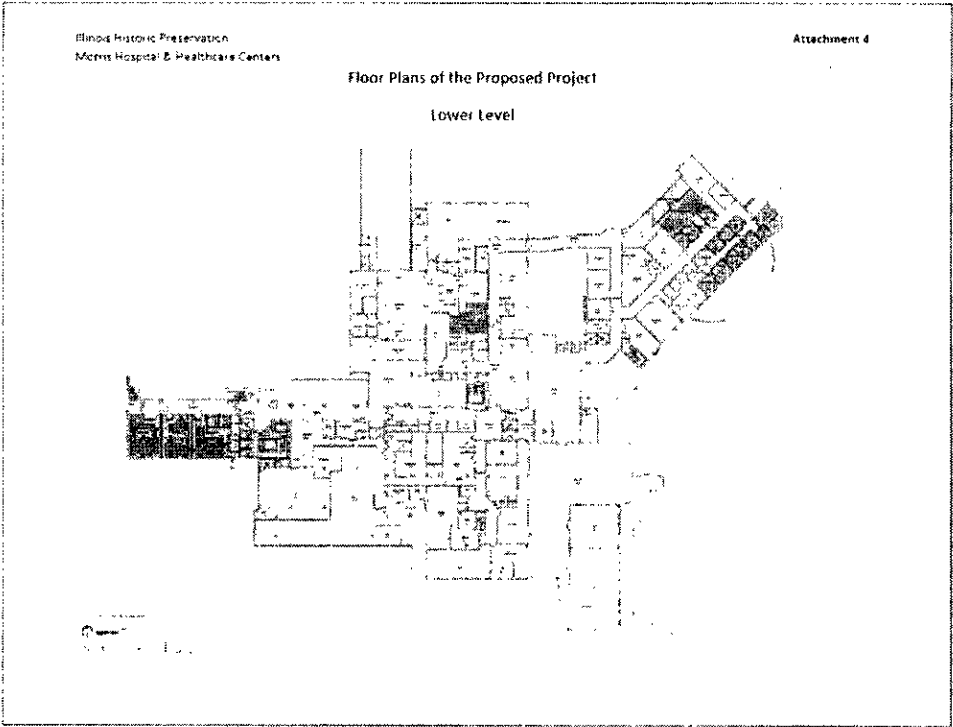
**MORRIS HOSPITAL & HEALTHCARE CENTERS**  
Modernization Project



MORRIS HOSPITAL & HEALTHCARE CENTERS  
Modernization Project



**MORRIS HOSPITAL & HEALTHCARE CENTERS**  
Modernization Project



**MORRIS HOSPITAL & HEALTHCARE CENTERS**  
Modernization Project

**PROJECT AND SOURCES OF FUNDS**

<b>Project Costs and Sources of Funds</b>			
<b>USE OF FUNDS</b>	<b>CLINICAL</b>	<b>NONCLINICAL</b>	<b>TOTAL</b>
Preplanning Costs <ul style="list-style-type: none"> <li>• Programming</li> <li>• CON Consultation</li> <li>• Master Planning</li> </ul>	\$183,993	\$173,301	\$357,293
Site Survey and Soil Investigation	20,000	60,000	80,000
Site Preparation <ul style="list-style-type: none"> <li>• Campus Utilities Renewal</li> </ul>	0	800,000	800,000
Off Site Work	0	0	0
New Construction Contracts	1,684,800	0	1,684,800
Modernization Contracts	8,537,018	9,627,821	18,164,838
Contingencies	1,449,033	1,444,173	2,893,206
Architectural/Engineering Fees	858,633	808,737	1,667,370
Consulting and Other Fees <ul style="list-style-type: none"> <li>• Project Management</li> <li>• CON Fees and Application</li> <li>• Medical Equipment Consulting</li> <li>• Cost Estimating</li> </ul>	502,617	439,950	942,567
Movable or Other Equipment (not in construction contracts) SEE BELOW	4,224,423	1,984,280	6,208,703
Bond Issuance Expense (project related)	527,250	422,750	950,000
Net Interest Expense During Construction (project related)	1,254,492	1,005,854	2,260,346
Fair Market Value of Leased Space or Equipment	0	0	0
Other Costs to Be Capitalized	0	0	0
Acquisition of Building or Other Property (excluding land)	0	0	0
<b>TOTAL USES OF FUNDS</b>	<b>\$19,242,258</b>	<b>\$16,766,866</b>	<b>\$36,009,124</b>
<b>SOURCE OF FUNDS</b>	<b>CLINICAL</b>	<b>NONCLINICAL</b>	<b>TOTAL</b>
Cash and Securities <sup>1</sup>	3,027,021	2,427,071	5,454,092
Pledges			
Gifts and Bequests			
Bond Issues (project related)	16,215,237	14,339,795	30,555,032
Mortgages			
Leases (fair market value)			
Governmental Appropriations			
Grants			
Other Funds and Sources			
<b>TOTAL SOURCES OF FUNDS</b>	<b>\$19,242,258</b>	<b>\$16,766,866</b>	<b>\$36,009,124</b>

<sup>1</sup> Morris Hospital is committing \$4,660,886 in Cash and Securities to the project. However, a fund drive is anticipated to assume some or all of these dollars. If the Source of Funds is to be altered, the Board will be notified by the applicant.

**MORRIS HOSPITAL & HEALTHCARE CENTERS**  
Modernization Project

**PROJECT COSTS AND SOURCES OF FUNDS**

USE OF FUNDS	CLINICAL	NONCLINICAL	TOTAL
Movable or Other Equipment (not in construction contracts)			
<ul style="list-style-type: none"> <li>Medical Equipment (see summary below)</li> <li>Furnishings</li> <li>Copiers</li> <li>Computers and Printers</li> <li>A/V Equipment</li> </ul>	\$4,224,423	\$1,984,280	\$6,208,703

Medical Equipment (Mitchell Equipment Planning Consultant):

<b>Mitchell</b> <small>A division of Ross, Boruzzi &amp; Associates, Inc.</small>		MORRIS HOSPITAL RENOVATION
		DEPARTMENTAL TOTAL SUMMARY
DEPARTMENT		TOTAL
ADMINISTRATION		\$958.00
BLOOD DRAW		\$11,689.81
EMERGENCY		\$922,739.70
IMAGING		\$835,606.27
INFUSION		\$43,906.95
NON-INVASIVE CARDIO DIAGNOSTICS		\$563,036.39
PRE-ADMISSION TESTING		\$2,193.15
SHARED HOLDING/RECOVERY		\$241,346.66
SURGERY		\$15,789.40
X) SUPPLEMENTAL COST		\$266,503.42
<small>           00 0000 0000 0000 0000 0000 0000 0000 0000 0000            00 0000 0000 0000 0000 0000 0000 0000 0000 0000            00 0000 0000 0000 0000 0000 0000 0000 0000 0000         </small>	<b>**REPORT TOTAL*</b>	<b>\$2,993,767.75</b>

**MORRIS HOSPITAL & HEALTHCARE CENTERS**  
Modernization Project

**FINANCIAL COMMITMENT WILL OCCUR AFTER CON APPROVAL**

In response to an RFP Morris Hospital & Healthcare Centers has received multiple proposals to issue approximately \$60 million in bonds to finance multiple capital improvements, including this project, two community based healthcare centers and other capital projects not subject to CON.

An application for the bond issuance has been submitted for approval by the Upper Illinois River Valley Development Authority (UIRVDA). Through the UIRVDA the bonds would be subject to that agency's double tax-exempt status. The actual issuance of the bonds is to be done by a private financial company. Several financial companies have responded to the Hospital's Request for Proposals. A copy of the Barclays' proposal is included in this application.

Bond issuance will occur after the Board's approval for this project.

See Attachment 34 for more detail.



**MORRIS HOSPITAL & HEALTHCARE CENTERS**  
Modernization Project

**COST SPACE REQUIREMENTS**

Clinical Service Areas	Cost	Gross Square Feet		Amount of Proposed Total Gross Square Feet That Is:			
		Existing	Proposed	New	Modernized	As Is	Vacated Space
<b>REVIEWABLE</b>							
Emergency Department	\$4,106,077	6,602	11,671	1,250	10,421	0	0
General Radiology (General/Fluoroscopy/ Bone Densitometry)	\$649,826	3,822	5,195	198	4,997	0	0
CT	\$532,340	2,607	3,597	1,061	2,536	0	0
Mammography (incl. Stereotactic)	\$ 636,272	1,663	1,796	1,436	360	-	-
Ultrasound	\$799,743	2,209	3,597	455	3,142	0	0
Nuclear Medicine	\$712,882	1,570	3,375		3,375	0	0
OR	\$592,463	8,596	8,236		2,731	5,505	0
Procedure	\$126,339	3,404	3,480		527	2,953	0
Non-Invasive Diagnostics	\$1,109,656	2,917	4,298		4,298	0	0
Infusion Therapy	\$560,490	691	1,678		1,678	0	0
Phlebotomy	\$257,372	551	959		959	0	0
PAT	\$138,358	209	415		415	0	0
<b>Total Clinical Service Areas</b>	<b>\$10,221,818</b>	<b>34,841</b>	<b>48,297</b>	<b>4,400</b>	<b>35,439</b>	<b>8,458</b>	<b>0</b>
<b>NON REVIEWABLE</b>							
Administration	\$2,852,216	10,562	10,353	0	6,217	4,136	0
Education	\$1,009,477	688	3,942	0	3,108	834	0
Public Areas (lobby, etc.)	\$909,086	10,213	8,483	9	6,159	2,315	0
Conference	\$396,829	9,957	4,062	0	825	3,237	0
Infrastructure Upgrades	\$4,468,836	NA	NA	NA	NA	NA	NA
<b>Total Non-Clinical Service Areas</b>	<b>\$9,636,444</b>	<b>31,420</b>	<b>26,840</b>	<b>9</b>	<b>16,309</b>	<b>10,522</b>	<b>0</b>
<b>Total Project</b>	<b>\$19,858,262</b>	<b>66,261</b>	<b>75,137</b>	<b>4,409</b>	<b>51,748</b>	<b>18,980</b>	<b>0</b>

**MORRIS HOSPITAL & HEALTHCARE CENTERS**  
Modernization Project

**BACKGROUND OF APPLICANT**

Morris Hospital & Healthcare Centers has been improving the health of area residents since 1906. Located 55 miles southwest of Chicago in Morris, Illinois, it is the only Hospital in Grundy County. It serves residents of Grundy County and parts of Will, LaSalle, Livingston, and Kendall counties and is the largest employer in Grundy County. Along with the main hospital campus in Morris, services throughout the area are provided a network of 26 area clinics and diagnostic/treatment centers. These include Diagnostic & Rehabilitative Center in Morris, the Radiation Therapy Center, the Morris Hospital Ridge Road Campus in Channahon, Morris Hospital Yorkville Campus, and physician offices in Braidwood, Channahon, Coal City, Dwight, Gardner, Marseilles, Mazon, Morris, Newark, Ottawa and Yorkville.

Morris Hospital is also part owner of the Deerpath Orthopedic Surgical Center that recently received a CON permit to significantly expand its services to the area's residents.

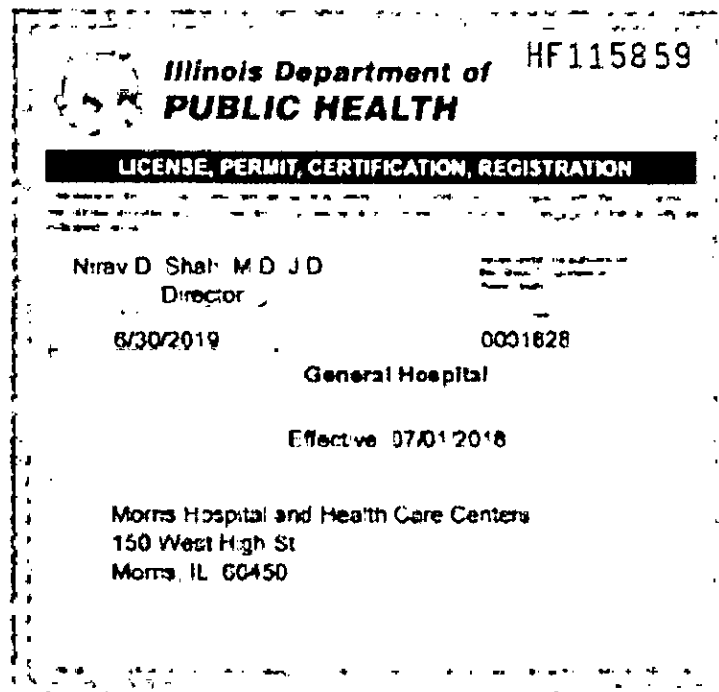
Morris Hospital & Healthcare Centers is known for its compassionate and personalized approach to healthcare. This is attributed to the outstanding work of 1,300 employees, 500 Auxiliaries, and a medical staff of more than 200 physicians and allied health/advanced practice providers representing most medical specialties. The hospital commits significant resources annually to continually enhance its diagnostic and treatment capabilities. Morris serves as a Resource Hospital within Region VII Emergency Medical Services. The organization continues to receive recognition received for excellence in patient care, safety and employee engagement:

- Recipient of The Advisory Board Company's **2017 Workplace of the Year Award**, an annual award that recognizes hospitals and health systems nationwide that have outstanding levels of employee engagement. (2017)
- Listed on Becker's Hospital Review's "**100 Great Community Hospitals**" list (2016, 2017)
- **Winner of 12, 5-Star Excellence in Healthcare Awards** for scoring in the top 10 percent of Professional Research Consultant's national client database, based on the percentage of patients who rate overall quality of care as excellent: Allergy Specialists, Pediatricians, Family Birthing Suites, Cardiac Diagnostics, Immediate Care (Yorkville and Ridge Road), Outpatient Surgery (GI Patients), Minooka Healthcare Center, 2 East, Newark Healthcare Center, Morris Healthcare Center (Business & Technology Center and Rheumatology on Edwards Street) (2017).
- **Winner of 11, 5-Star Physician Engagement Awards** for scoring in the top 10 percent of Professional Research Consultant's national client database based on the percentage of physicians who rated Morris Hospital "excellent" in these categories: Pathology Services, Physician Engagement, Radiology Services, As a Place to Practice Medicine, Emergency Services, Laboratory Services, Patient Safety, Quality of Care, Surgical Services, Anesthesia Services, Hospitalist Services. Top Performer award for Nursing Care. (2017).
- Named **Best Employer in Grundy County** through the Morris Herald News' Reader's Choice awards (2016, 2017).
- **Named Favorite Hospital** through The Times newspaper Reader's Choice awards (2017).
- A Truven Health Analytics **100 Top Hospitals® award winner** (2016)
- Winner of Professional Research Consultant's **Top Performer Award for Nursing Care** based on the percentage of physicians who rated Morris Hospital nursing care as excellent (2016).

**MORRIS HOSPITAL & HEALTHCARE CENTERS**  
Modernization Project


- Named Studer Group's Rural Healthcare Organization of the Month (May 2016)
- Listed as 1 of 37 hospitals to receive **Consumer Reports** highest rating for preventing surgical site infections, central line infections, and infections from urinary catheters (November 2014)
- Listed in **Consumer Reports** among the **top 20 hospitals in Illinois for surgery safety** (September 2013)
- One of 20 hospitals in the nation to receive the Healthcare Advisory Board's **Excellence in Employee Engagement Award** (2012)
- Recognized by the Healthcare Advisory Board for **Excellence in Employee Engagement** (2011, 2012)
- Recipient of Studer Group's **Excellence in Patient Care Award** for overall excellence in patient care (2011)
- Recipient of Studer Group's **Excellence in Patient Care Award** for Nurse Communication (2010)
- Solucient **Top 100 Hospitals** (2007)

**Hospital License**



**MORRIS HOSPITAL & HEALTHCARE CENTERS**  
Modernization Project

**Accreditation Certificate**

 <b>AMERICAN OSTEOPATHIC ASSOCIATION</b>	
<b>BUREAU OF HEALTHCARE FACILITIES ACCREDITATION</b> <b>HEALTHCARE FACILITIES ACCREDITATION PROGRAM</b>	
<small>142 E. Ontario Street, Chicago, IL 60611-2064    312.298.8268    312.298.8268</small>	
May 9, 2017	
Mark B. Steadham Chief Executive Officer Morris Hospital & Healthcare Centers 150 West High Street Morris, IL 60450	
Dear Mr. Steadham:	
The American Osteopathic Association's Bureau of Healthcare Facilities Accreditation (BHFA) reviewed the triennial Deficiency Assessment Report for your Acute Care Hospital and granted Full Accreditation with resurvey within 3 years and does recommend that the Centers for Medicare and Medicaid Services Regional Office (CMS, RCO) approve continued deemed status fee:	
Morris Hospital & Healthcare Centers 150 West High Street Morris, IL 60450	Program: Acute Care Hospital GCN # 142101 HFAP ID 197139 Triennial Survey Dates: 01/23/2017 - 01/23/2017 Focused Resurvey Dates: 03/22/2017 - 03/22/2017 Plan(s) of Correction Received: 03/22/2017 Effective Date of Accreditation: 04/25/2017 - 04/25/2020
Newark Healthcare Center of Morris Hospital 5 N. Johnson St. Newark, IL 60451	
Martinez Healthcare Center of Morris Hospital 580 Seymour St. Martinez, IL 61341	
Channahon Healthcare Center of Morris Hospital 25259 Reed St. Channahon, IL 60410	
Dwight Healthcare Center of Morris Hospital 131 S. Peoria Ave. Dwight, IL 60420	
Gardner Healthcare Center of Morris Hospital 409 N. Route 53 Gardner, IL 60424	
Northwood Healthcare Center of Morris Hospital 399 E. Main St. Northwood, IL 60406	
Morris Hospital Ridge Road Campus 27240 W. Sycamore Dr. Channahon, IL 60410	
<b>TREATING OUR FAMILY AND YOURS</b> <a href="http://www.aopa.org">www.aopa.org</a>   <a href="http://ds-online.org">ds-online.org</a>	

**MORRIS HOSPITAL & HEALTHCARE CENTERS**  
Modernization Project

Oncologic & Rehabilitation Center of Morris  
Hospital  
100 Gore Road  
Morris, IL 60450

Morris Healthcare Center of Morris Hospital  
1345 N. Edwards St.  
Morris, IL 60450

Radiation Therapy Center of Morris Hospital  
1600 West U.S. Rte. 6  
Morris, IL 60450

Morris Hospital Off & Gynecology and  
Cardiovascular Services  
1600 Snodgrass Dr.  
Ottawa, IL 61350

Morris Hospital Obstetrics & Gynecology  
257 W. Waverly  
Morris, IL 60450

Morris Hospital Cardiovascular Services  
151 W. High St.  
Morris, IL 60450

Morris Healthcare Center of Morris Hospital  
622 Depot St.  
Morris, IL 60444

Morris Hospital Family Medicine  
1404 Aquinas Dr.  
Suite A  
Ottawa, IL 61350

Morris Hospital Yorkville Campus  
105 Saranac Dr.  
Yorkville, IL 60560

Family Physicians of Coal City  
935 E. Division  
Coal City, IL 60416

Morris Business & Technology Center  
1802 N. DuSable  
Suite 205  
Morris, IL 60450

Morris Hospital Neurology Services  
1499 Lakeside Dr.  
Suite 1  
Morris, IL 60450

Morris Hospital & Healthcare Centers - Dr. Ben  
219 Bedford Rd.

**MORRIS HOSPITAL & HEALTHCARE CENTERS**  
Modernization Project

Morris, IL 60430

Liberty Medical Center  
827 E. Norris Dr.  
Ottawa, IL 61350

Condition Level Deficiencies: ☐ None  
(Use checkbox and CFR citations, if applicable).  
482.41

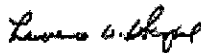
Any Condition Level Deficiency that was cited during the  
initial survey was found to be in compliance with the focused  
survey.

Morris Hospital & Healthcare Centers does not have Swing Beds, a DPC Rehab Unit or a DPC Psych Unit and was not  
surveyed under those standards.

This accreditation decision was reached on May 2, 2017 by the BHFA's Executive Committee.

In reviewing your report, the Bureau of Healthcare Facilities Accreditation (BHFA) made the observations that are contained  
on the enclosed Bureau Progress Report and request that an Initial Progress Report be received at the A/OA Division of  
Healthcare Facilities Accreditation prior to May 17, 2017.

Sincerely,



Lawrence E. Haspel, D.O.  
Chairman, Bureau of Healthcare Facilities Accreditation  
The Healthcare Facilities Accreditation Program  
LHFA/CDC

c. CMS Central Office  
Region V, CMS

**MORRIS HOSPITAL & HEALTHCARE CENTERS**  
Modernization Project

**CoC ACCREDITATION**

Wednesday, March 21, 2018

6432300  
Morris Hospital  
150 West High Street  
Morris, IL 60450-1497

Dear Cancer Program Members:

On behalf of the American College of Surgeons, the Commission on Cancer (CoC) would like to extend its congratulations to the cancer program at Morris Hospital for completing its recent CoC survey.

Based on the survey results, Morris Hospital cancer program's current accreditation status is **"Three-Year Accreditation with Contingency."** The areas of deficiency and opportunities for improvement are identified on the Performance Report (PR). The PR is available within *CoC Datalinks* under the Main Activity Menu – a link titled "Performance Report." For best results for viewing and downloading the PR, please use Chrome, Firefox, or Internet Explorer (Version 9 or higher).

**Appeals** - If you wish to appeal a rating, please follow the appeal guidelines and process as posted at <https://www.facs.org/quality-programs/cancer/coc/info>. To ensure a rapid response to appeals, please detail the appeal justification under the "Appeals" link located in the Survey Application Record (SAR) menu in *CoC Datalinks*. Appeals must be submitted within 30 days of the date on this letter.

**Deficiency Resolutions** – Deficiency resolution materials must be submitted electronically through the "Deficiency Resolution" section in the SAR by the due date listed on the PR. If documentation is not submitted prior to the due date, the program is at risk for having its Commission on Cancer accreditation status discontinued. To locate directions to access the "Deficiency Resolution" section and/or to determine what supporting documentation is required to be submitted for resolution, please see documentation located at <https://www.facs.org/quality-programs/cancer/coc/info> under the "Survey Process" heading.

**For survey process questions** - Please utilize the "Contact CoC" web form: <https://www.facs.org/quality-programs/cancer/coc/contact-coc>

We are confident that you will address these issues so that your cancer program can achieve full accreditation status; after which your program will receive information regarding an accreditation certificate and gain access to the Marketing Resource page. Note, only after full accreditation status is earned are programs allowed to market CoC accreditation.

The CoC truly values your participation in the CoC Accreditation Program as part of an elite group of cancer programs committed to providing high-quality cancer care.

Regards,

Accreditation & Standards Staff  
Commission on Cancer  
633 N. Saint Clair Street  
Chicago, IL 60611

**MORRIS HOSPITAL & HEALTHCARE CENTERS**  
Modernization Project

**Adverse Actions and Authorizations**



August 6, 2018

Ms. Courtney Avery  
Administrator  
Health Facilities and Services Review Board  
525 W. Jefferson Street  
Springfield, IL 62761

Dear Ms. Avery:

This hereby affirms that no adverse actions have been taken against any facility owned and/or operated by Morris Hospital & Healthcare Centers during the three years prior to the filing of this application.

This also authorizes HFSRB and IDPH access to any documents necessary to verify the information submitted, including, but not limited to: official records of IDPH or other State agencies; the licensing or certification records of other states, when applicable; and the records of nationally recognized accreditation organizations.

Sincerely,

Mark Steadham  
President & CEO

People You Know. Extraordinary Care.



**MORRIS HOSPITAL & HEALTHCARE CENTERS**  
Modernization Project

**PURPOSE OF THE PROJECT**

Morris Hospital & Healthcare Centers has been engaged in strategic and facilities master planning for about 2 years. This comprehensive planning is intended to position the Morris healthcare network and the Hospital for the delivery of the highest quality healthcare through the next decade. Among the plans being implemented are the development of the Deerpath Orthopedic Surgical Center as a primary site of the network's outpatient surgery program (CON approved by the Board in January 2017); expansion of community clinics, and the modernization of Morris Hospital acute care facility.

Morris Hospital is the only hospital serving Grundy County. It serves this County's residents and those from surrounding areas.

The areas affected by this project are housed in the main hospital structure was completed in 1966, and additions in 1981, and 1986. By the time the project is completed, the building ages of the areas affected will range from 56 to 36 years old. This project will upgrade the configuration of these areas to reflect changes in clinical practices as well as adjust for current utilization patterns. Additionally, the project will renew deteriorated infrastructure systems within these aged structures. Specifically, the project will:

Modernization and minor expansions (new construction) is to occur within to:

1. Upgrade the facilities to contemporary clinical practice, especially Emergency Department and Imaging;
2. Reorganize areas to better accommodate outpatient access, including the establishment of a Women's Imaging Center;
3. Expand capacity in areas of high utilization increases, especially Emergency Department
4. Reduce capacities Surgical Services due to the consolidation of the ambulatory surgery program with Deerpath Orthopedic Surgical Center;
5. Consolidate facilities to improve operational efficiencies;
6. Correct identified code issues;
7. Upgrade fire protection, mechanical, plumbing, and electrical components in the portions of the buildings affected by the project.

**MORRIS HOSPITAL & HEALTHCARE CENTERS**  
Modernization Project

**ALTERNATIVES TO THE PROJECT**

For several years, Morris Hospital & Healthcare Centers has been conducting strategic facility planning incorporating the redevelopment of its acute care facility in context of its network of clinics and other services that serve its patients from Grundy County and elsewhere. Among the project alternatives considered include:

**1. Morris Hospital Greenfield Replacement**

Morris Hospital investigated relocating just north of the I-80 "Morris Yorkville" exit number 112. Although that would have instantly modernized all facility aspects of the operation, the \$240 million projected cost impacted finances in a non-sustainable way. Also, the new location would have moved the hospital away from core of Morris Hospital patients, which was viewed as a negative. These factors eliminated this approach from further consideration.

**2. Morris Hospital Major Addition**

An alternative master plan for a major Morris Hospital addition to the north and east, which relocated surgery, the entry, cafeteria, emergency department, and added beds to provide for all private rooms. Much of the ancillary diagnostics were also located to the addition. The master plan projects were budgeted at \$180 million, which would have weakened the hospital's financial strength, and was not pursued further.

**3. Morris Hospital Modernization (Proposed Project)**

The proposed project addresses the Hospital's priority facility needs including modernization of key clinical service areas, and the upgrade of deteriorated facility infrastructure and building services. At a project cost of **\$36,009,124** this project is being proposed in conjunction with other clinical services repositioning including the establishment of the Deerpath Surgical Ambulatory Surgery Center as a primary site for the Hospital's outpatient surgery program and expansion of the Hospitals outpatient clinical services network. By taking this multi-faceted approach, the Hospital can maximize the effectiveness of its financial resources while accomplishing the needed improvements in its clinical services facilities and programs.

**MORRIS HOSPITAL & HEALTHCARE CENTERS**  
Modernization Project

**SIZE OF THE PROJECT**

**SIZE OF PROJECT**

<b>Clinical Service Areas</b>	<b>Key Rooms</b>	<b>Proposed DGSF</b>	<b>State Standard</b>	<b>Difference</b>	<b>Met Standard</b>
Emergency Department	17	11,671	15,300	(3,629)	<b>Yes</b>
Imaging					
General Radiology (General/Fluoroscopy/ Bone Densitometry)	4	5,195	5,200	(5)	<b>Yes</b>
CT	2	3,597	3,600	(3)	<b>Yes</b>
Mammography (Incl. Stereotactic)	2	1,796	1,800	(4)	<b>Yes</b>
Ultrasound	4	3,597	3,600	(3)	<b>Yes</b>
Nuclear Medicine	2	3,375	2,600	775	<b>No</b>
Surgery					
OR	3	8,236	8,250	(14)	<b>Yes</b>
Procedure	3	3,480	3,300	180	<b>No</b>
Non-Invasive Diagnostics	7	4,298	No Std	NA	NA
Infusion Therapy	5	1,678	No Std	NA	NA
Phlebotomy	4	959	No Std	NA	NA
PAT	1	415	No Std	NA	NA

The two Service Areas that do not meet the State Standards are Procedure Rooms and the Nuclear Medicine service.

**Nuclear Medicine**

In the modernization of the service, the existing walls are being preserved to reduce capital costs and to accommodate existing columns and corridor locations. These design constraints result in a DGSF of 775 more than the State Standard.

**Surgery/Procedure Rooms**

Note that the overall number of surgical rooms and SF is being reduced from the current by reducing the number of operating rooms from the current 4 to 3. This is keeping with the Hospital's commitment to the Board in the Deerpath Orthopedic Surgical Center CON application.

As a renovated area with fixed boundaries, we are maximizing the function without removing significant portions of the support areas, to reduce the potential for operational and safety issues, and the potential for infection caused by unneeded construction. These design constraints result in a DGSF of 180 SF more than the State Standard.

**MORRIS HOSPITAL & HEALTHCARE CENTERS**  
Modernization Project

**PROJECT SERVICE UTILIZATION**

<b>UTILIZATION</b>						
DEPT./ SERVICE	UTILIZATION (PATIENT DAYS) (TREATMENTS) ETC.			KEY ROOMS	STATE STANDARD PER KEY ROOM	MEET STANDARD?
	2017	2018 Projected	2023			
Emergency Department	27,441	27,715	28,841	17 <sup>2</sup>	<b>2,000</b>	<b>No</b>
Imaging						
General Radiology (General/Fluoroscopy/ Bone Densitometry)	21,972	27,210	30,150	1 3	8,000 (General) 6,500 (Others)	<b>YES</b>
CT	14,181	15,232	16,210	2	7,000	<b>YES</b>
Mammography (Incl. Stereotactic)	4,832	4,516	5,084	2	5,000	<b>YES</b>
Ultrasound	8,581	9,326	10,081	4	3,100	<b>YES</b>
Nuclear Medicine	1,465	1,664	1,719	2	2,000	<b>NO</b>
Surgery (HOURS)						
OR	6,948	3,762	3,952	3	1,500	<b>YES</b>
Procedure	2,450	2,474	2,599	3	1,500	<b>NO</b>
Non-Invasive Diagnostics	11,554	11,816	12,418	7	NA	No Std
Infusion Therapy	3,232	3,856	4,053	5	NA	No Std
Phlebotomy	NA	76,700	80,535	4	NA	No Std
Pre-Admission Testing	4,697	4,440	4,666	1	NA	No Std

Three Clinical Service Areas do not meet the State Standards for utilization. Explanations are below:

**Emergency Department**

The Department is being totally modernized from its current configuration in the existing 1960s building. In its new configuration it will have a compliment of 14 general purpose treatment/trauma stations reflecting the historical and projected utilization – 28,000+ visits. Three additional rooms have been included for specialty purposes. These are 2 Behavioral Health/Safe Rooms for psychiatric holding and 1 SANE (Sexual Assault Nurse Examiner) Room to accommodate patient assault victims.

<sup>2</sup> The Emergency Department project includes 14 general purpose treatment areas plus 2 specialty holding rooms for Behavioral Health and 1 SANE Room for sexual assault victims.

**MORRIS HOSPITAL & HEALTHCARE CENTERS**  
Modernization Project

**Nuclear Medicine**

This service currently has two 2-head Nuclear Medicine scanners and is proposing to maintain this compliment for operational purposes. It is estimated that 29% of the patients scanned take an hour and a half to two hours to complete. Most exams that we perform are Cardiology Stress Tests which are mostly done as a two-part study with each part being 45 minutes. By maintaining the two rooms the service can provide efficient quality patient care by using one of the rooms for the longer studies of an hour and a half or two hours per study and the other room for the exams with shorter time frames.

**ORs/Procedure Rooms**

Note that the overall number of surgical rooms is being reduced by reducing the number of operating rooms from the current 4 to 3. This is in keeping with the Hospital's commitment to the Board in the Deerpath Orthopedic Surgical Center CON application.

The Hospital is proposing to maintain its current compliment of 3 Procedure Rooms for operational efficiency purposes. Two of these rooms are dedicated to GI cases. The Hospital's practice is to prepare a patient in one room, while a procedure is being performed in the 2<sup>nd</sup> room. This has been found it to be operationally efficient. The third room is a general-purpose procedure room needed for a variety of cases. The specialized nature of these rooms permits the Hospital scheduling and operational flexibility and efficiencies necessary for a facility of this size.

**MORRIS HOSPITAL & HEALTHCARE CENTERS**  
Modernization Project

**CLINICAL SERVICES OTHER THAN CATEGORIES OF SERVICE**

<b>Project Services</b>	<b># Existing Key Rooms</b>	<b># Proposed Key Rooms</b>
Emergency Department	11	17
General Radiology (General Radiology/ Fluoroscopy/ Bone Densitometry)	4	4
CT	2	2
Mammography (Incl. Stereotactic)	1	2
Ultrasound	3	4
Nuclear Medicine	2	2
Surgery		
OR	4	3
Procedure	3	3
Non-Invasive Diagnostics		7
Infusion Therapy		5
Phlebotomy		4
PAT		1

The Clinical Service Areas affected by this project are indicated in the table below, with their historic and projected utilization (2023 is the first calendar year after completion). The Hospital has taken a conservative approach to its projections consistent with the expansion of its community health center network program. All projections except Surgery are at a lower rate per year than is historically indicated. Surgical services are anticipated to grow at a minimal rate due to the overall renewal of the Hospital's facilities.

	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2023</b>	<b>Historical Change per Year to 2018</b>	<b>Projected Change per Year 2018 to 2023</b>
<b>Emergency Department</b>	26,625	27,331	27,441	26,630	28,841	3%	1.7%
<b>Imaging</b>							
<b>General Radiology (General/Fluoroscopy/ Bone Densitometry)</b>	28,388	28,462	27,471	27,210	30,150	2%	2.2%
<b>CT</b>	12,807	14,606	15,370	15,232	16,210	9%	1.3%
<b>Mammography (Incl. Stereotactic)</b>	4,045	4,283	4,837	4,516	5,084	3%	2.5%
<b>Ultrasound</b>	7,202	8,578	9,602	9,326	10,081	13%	1.6%
<b>Nuclear Medicine</b>	1,599	1,636	1,639	1,664	1,719	3%	0.7%
<b>Surgery</b>							
<b>OR</b>	6,033	8,336	6,948	3,762	3,952	-11%	1.0%
<b>Procedure</b>	2,663	2,492	2,450	2,474	2,599	-1%	1.0%
<b>Non-Invasive Diagnostics</b>			11,554	11,816	12,418	2%	1.3%
<b>Infusion Therapy</b>			3,232	3,856	4,053	19%	1.2%
<b>Phlebotomy</b>			NA	76,700	80,535		1.0%
<b>PAT</b>	4,496	5,008	4,697	4,440	4,666	-1.3%	1.0%

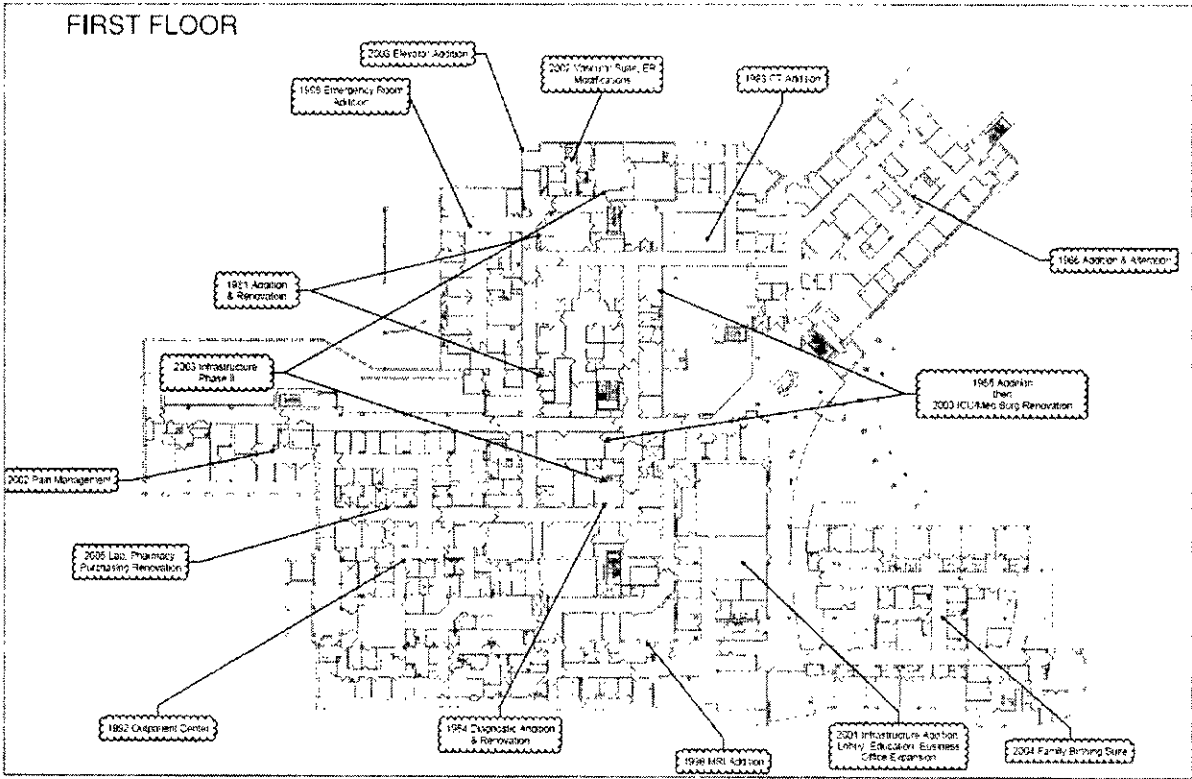
**MORRIS HOSPITAL & HEALTHCARE CENTERS**  
Modernization Project

**Deteriorated Facilities and Code Compliance**

All the clinical renovations are in the 1966, 1981, and 1986 additions building. By the time the project is completed, the building ages of the areas affected will range from 56 to 36 years old. As aging clinical structures, they are in need of upgrade and reconfiguration to conform to current clinical practices, improve operational efficiencies and conform to current space standards. Additionally, as the 1966 building was planned and constructed before the establishment of the Americans with Disabilities Act (ADA), the facility is not compliant with that Act.

**MORRIS HOSPITAL & HEALTHCARE CENTERS**  
Modernization Project

**Existing Floor Plan Indicating Original Building Construction**





### Proposed Modernization Areas



## **MORRIS HOSPITAL & HEALTHCARE CENTERS**

### **Modernization Project**

As individual clinical areas are vacated, deteriorated building infrastructure is to be renewed and the areas modernized. This is to provide a proper physical setting for those services occupying those aged areas.

Notes on specific services:

#### **Surgery**

The project includes the reduction of the total surgical rooms to accommodate projected volumes. This is a fulfillment of the commitment made to the State Board by Morris Hospital in the Board's consideration of the Deerpath Orthopedic Ambulatory Surgical Center. That CON permit # 17-059 was approved by the Board on January 9, 2018. The application stated that surgical case volume is to be shifted from Morris Hospital to the ASTC and that Morris Hospital would adjust the number of surgical procedure rooms (ORs and minor procedure rooms) to accommodate this shift. This process is ongoing with a project completion date for the permit of December 31, 2018. The shifting of surgical case volume is expected to continue through December 2020.

The scope of modernization work for the surgical areas is limited. The work includes the expansion of a public corridor from 6-foot width to an 8-foot width to bring that corridor into code compliance (IDPH and NFPA 101) for use for patient transport. The modernized corridor (made possible by the vacating of an OR) will permit the transport of patients to the Surgery Department from the Emergency Department, Labor and Delivery, and other areas via a direct route. As currently exists, the current patient corridor is a circuitous route that delays the transfer process of patients and is more labor intensive for hospital staff.

#### **Emergency Department**

Planned and constructed in the 1960s, the Emergency Department is substandard by today's standards and is considered obsolescent. The Department has 471 DGSF per station compared the the Board's standard of 900 DGSF per station. The configuration lacks separation of emergent and non-emergent patients. Additionally, the "ward" style treatment rooms with multiple stations, lacks compliance with patient privacy standards, both visual and acoustical.

The utilization of the Emergency Department has grown over time and the project is necessary to expand its capacity. The existing 11 stations are insufficient to handle the visit volume. The project proposes that the existing complement of 14 general treatment/trauma stations configured as will accommodate the projected volumes, consistent with the Board's utilization criterion. In addition, the proposed configuration adds 3 dedicated specialty treatment rooms: 2 for Behavioral Health holding and 1 SANE Room (Sexual Assault Nurse Examiner) for victims of sexual assault.

#### **Imaging Department**

The extensive work to various modalities within imaging is to address operational and deteriorated facilities housing this 1960s service. The reconfiguration and reconstruction of the Department will accomplish the following:

- Consolidate the imaging modalities, permitting the cross use of technicians and improved patient handling;
- Establish a Women's Imaging unit which is to include Mammography, Bone Density and Ultrasound services;
- Improve room sizes and configurations;
- Improve access to Ultrasound from the Emergency Department.

Imaging modalities are to maintain their existing complement of equipment with the following exceptions:

- Mammography service is adding a Stereotactic Mammography unit. This enhances the Mammography service by offering low dose x-ray breast biopsy services for its patients.
- Ultrasound is adding 1 additional unit to accommodate increased patient utilization.

**MORRIS HOSPITAL & HEALTHCARE CENTERS**  
Modernization Project

**AVAILABILITY OF FUNDS**

**Audited Financial Statement**

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# Morris Hospital & Healthcare Centers

(and Subsidiaries)

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**Consolidated Financial Report  
with Supplemental Information  
December 31, 2017**

## **Morris Hospital & Healthcare Centers**

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## Independent Auditor's Report

To the Board of Directors  
Morris Hospital & Healthcare Centers

We have audited the accompanying consolidated financial statements of Morris Hospital & Healthcare Centers and its subsidiaries (the "Hospital"), which comprise the consolidated balance sheet as of December 31, 2017 and 2016 and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Morris Hospital & Healthcare Centers and its subsidiaries as of December 31, 2017 and 2016 and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Plante & Moran, PLLC*

April 17, 2018

**Morris Hospital & Healthcare Centers****Consolidated Balance Sheet****December 31, 2017 and 2016**

	2017	2016
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 34,952,976	\$ 34,207,062
Assets limited as to use - Current (Note 5)	38,061	4,143
Accounts receivable - Net (Note 3)	33,475,905	30,105,154
Inventories, prepaid, and other	6,217,246	5,903,390
Total current assets	74,684,188	70,219,749
<b>Assets Limited as to Use - Net of current portion (Note 5)</b>	63,909,253	57,565,667
<b>Property and Equipment - Net (Note 6)</b>	76,829,990	75,339,810
<b>Intangible Assets</b>	346,691	272,724
<b>Other Assets</b>		
Estimated insurance recoveries (Note 12)	4,241,460	3,857,551
Investments (Note 5)	2,064,031	1,671,687
Investment in joint ventures	127,325	167,178
Total other assets	6,432,816	5,696,416
Total assets	<u><u>\$ 222,202,938</u></u>	<u><u>\$ 209,094,366</u></u>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 14,094,679	\$ 13,423,257
Agency funds	230,006	212,873
Current portion of long-term debt (Note 7)	2,460,467	2,321,310
Estimated third-party payor settlements (Note 4)	11,759,408	7,291,456
Total current liabilities	28,544,560	23,248,896
<b>Long-term Debt - Net of current portion (Note 7)</b>	35,432,214	37,959,022
<b>Other Liabilities</b>		
Estimated insurance liabilities (Note 12)	5,457,293	4,875,309
Other long-term liabilities (Note 8)	3,524,231	4,005,488
Total other liabilities	8,981,524	8,880,797
Total liabilities	72,958,298	70,088,715
<b>Net Assets</b>		
Unrestricted	148,291,213	138,183,417
Temporarily restricted	690,345	560,433
Permanently restricted	263,082	261,801
Total net assets	149,244,640	139,005,651
Total liabilities and net assets	<u><u>\$ 222,202,938</u></u>	<u><u>\$ 209,094,366</u></u>

**Morris Hospital & Healthcare Centers****Consolidated Statement of Operations****Years Ended December 31, 2017 and 2016**

	2017	2016
<b>Unrestricted Revenue, Gains, and Other Support</b>		
Net patient service revenue	\$ 174,913,155	\$ 160,022,713
Provision for bad debts	(10,075,769)	(5,768,010)
Net patient service revenue less provision for bad debts	164,837,386	154,254,703
Contributions and other	2,222,748	2,885,423
Net assets released from restrictions for operations	86,409	8,371
Total net revenue	167,146,543	157,148,497
<b>Expenses</b>		
Salaries and benefits	95,908,598	85,320,552
Supplies and other	57,664,640	55,137,051
Depreciation and amortization	9,432,532	8,717,364
Interest expense	550,782	436,032
Total expenses	163,556,552	149,610,999
<b>Operating Income</b>	3,589,991	7,537,498
<b>Nonoperating Income (Expense)</b>		
Investment return (Note 5)	6,775,373	2,696,079
Other	(4,982)	28,898
Net settlements for derivative instruments (Note 8)	(648,157)	(558,354)
Change in fair value of interest swap agreements (Note 8)	395,571	145,604
Total nonoperating income	6,517,805	2,312,227
<b>Excess of Revenue Over Expenses</b>	10,107,796	9,849,725
<b>Net Assets Released from Restriction</b>	-	395,783
<b>Increase in Unrestricted Net Assets</b>	<b>\$ 10,107,796</b>	<b>\$ 10,245,508</b>



**Morris Hospital & Healthcare Centers****Consolidated Statement of Changes in Net Assets****Years Ended December 31, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>Unrestricted</b>		
Excess of revenue over expenses	\$ 10,107,796	\$ 9,849,725
Net assets released from restriction for capital	-	395,783
Increase in unrestricted	10,107,796	10,245,508
<b>Temporarily Restricted</b>		
Contributions	205,670	78,102
Investment income (Note 5)	10,651	11,358
Net assets released from restrictions	(86,409)	(401,154)
Increase (decrease) in temporarily restricted	129,912	(311,694)
<b>Permanently Restricted</b>		
Contributions	360	1,206
Investment income (Note 5)	3,836	4,240
Net assets redesignated by donor	(2,915)	(3,000)
Increase in permanently restricted	1,281	2,446
<b>Increase in Net Assets</b>	10,238,989	9,936,260
<b>Net Assets - Beginning of year</b>	139,005,651	129,069,391
<b>Net Assets - End of year</b>	<u><u>\$ 149,244,640</u></u>	<u><u>\$ 139,005,651</u></u>

**Morris Hospital & Healthcare Centers****Consolidated Statement of Cash Flows****Years Ended December 31, 2017 and 2016**

	2017	2016
<b>Cash Flows from Operating Activities</b>		
Increase in net assets	\$ 10,238,989	\$ 9,936,260
Adjustments to reconcile increase in net assets to net cash and cash equivalents from operating activities:		
Depreciation	9,432,532	8,717,364
Loss (gain) on disposal of property and equipment	4,982	(28,898)
Provision for bad debts	10,075,769	5,768,010
Change in net unrealized and realized gains	(5,343,371)	(1,238,387)
Change in fair value of cash flow derivative instruments	(395,571)	(145,604)
Restricted contributions and investment return	(206,030)	(79,308)
Net assets released from restriction used for operation	-	8,371
Amortization of debt costs	(50,624)	(58,285)
Amortization of intangible assets	(73,967)	218,629
Income from joint venture	(68,254)	(141,860)
Changes in operating assets and liabilities which (used) provided cash and cash equivalents:		
Accounts receivable	(10,458,941)	(4,533,491)
Inventories, prepaids, and other	(347,536)	26,232
Estimated insurance recoveries	(383,909)	498,735
Accounts payable and accrued expenses	705,102	2,661,045
Estimated third-party settlements	1,480,373	(4,277,362)
Estimated insurance liabilities	581,984	(469,551)
Other liabilities	(85,686)	(35,055)
Agency funds	17,133	68,812
Net cash and cash equivalents provided by operating activities	15,122,975	16,895,657
<b>Cash Flows from Investing Activities</b>		
Purchase of property and equipment	(10,933,444)	(18,774,061)
Proceeds from disposition of property and equipment	5,750	197,452
Purchases of investments and assets limited as to use	(7,617,619)	(30,512,130)
Proceeds from sales and maturities of investments and assets limited as to use	6,191,142	29,164,791
Distributions from joint venture	108,107	179,509
Net cash and cash equivalents used in investing activities	(12,246,064)	(19,744,439)
<b>Cash Flows from Financing Activities</b>		
Proceeds from debt	-	6,000,000
Payments on debt	(2,337,027)	(2,108,125)
Proceeds from restricted contributions and investment return	206,030	79,308
Net assets released from restriction used for operation	-	(8,371)
Net cash and cash equivalents (used in) provided by financing activities	(2,130,997)	3,962,812
<b>Net Increase in Cash and Cash Equivalents</b>	745,914	1,114,030
<b>Cash and Cash Equivalents - Beginning of year</b>	34,207,062	33,093,032
<b>Cash and Cash Equivalents - End of year</b>	<u>\$ 34,952,976</u>	<u>\$ 34,207,062</u>

## **Morris Hospital & Healthcare Centers**

# **Notes to Consolidated Financial Statements**

**December 31, 2017 and 2016**

### **Note 1 - Nature of Business**

The accompanying consolidated financial statements include the accounts of Morris Hospital & Healthcare Centers, Morris Hospital Foundation, and Morris Hospital Auxiliary (collectively referred to as the "Hospital"). Morris Hospital & Healthcare Centers is the sole corporate member of Morris Hospital Foundation and Morris Hospital Auxiliary and, accordingly, their accounts have been consolidated with those of Morris Hospital & Healthcare Centers.

**Morris Hospital & Healthcare Centers** offers general acute care and outpatient services to residents of Morris, Illinois and surrounding communities.

**Morris Hospital Foundation** provides fundraising and other support to Morris Hospital & Healthcare Centers.

**Morris Hospital Auxiliary** provides a wide array of volunteer services, solicits gifts and contributions, and other support to Morris Hospital & Healthcare Centers.

### **Note 2 - Significant Accounting Policies**

#### ***Basis of Consolidation***

The consolidated financial statements include the accounts of the Hospital and all of its wholly owned and majority-owned subsidiaries. All material intercompany accounts and transactions have been eliminated in consolidation.

#### ***Use of Estimates***

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

#### ***Cash and Cash Equivalents***

Cash and cash equivalents include cash and investments in highly liquid investments purchased with an original maturity of three months or less, excluding those amounts included in assets limited as to use. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per institution. As of December 31, 2017 and 2016, cash balances exceed the insured limit. Management believes that, due to the dollar amount of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits.

#### ***Accounts Receivable***

Accounts receivable for patients, insurance companies, and governmental agencies are based on gross charges. An allowance for uncollectible accounts is established on an aggregate basis by using historical write-off rate factors applied to unpaid accounts based on aging. Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectibility of accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. Net accounts receivable is based on expected payment rates from payors based on current reimbursement methodologies.

## **Notes to Consolidated Financial Statements**

**December 31, 2017 and 2016**

### **Note 2 - Significant Accounting Policies (Continued)**

For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary. For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts in the period they are determined to be uncollectible.

#### ***Inventories***

Inventories, which consist of medical and office supplies and pharmaceutical products, are stated at the lower of cost or market, determined on a first-in, first-out basis or market.

#### ***Deferred Finance Charges***

Deferred finance charges represent legal, consulting, and financial costs associated with debt financing. Such charges are being amortized over the respective terms of the debt agreement using the straight-line method, which approximates the effective-interest method. Amortization costs totaling \$50,625 and \$58,285 as of December 31, 2017 and 2016, respectively, related to deferred finance charges are included in interest expense.

#### ***Investments***

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheet. The fair value of the global equity fund has been estimated by management, utilizing the net asset value of the fund, in the absence of readily determinable market values. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in excess of revenue over expenses unless the income or loss is restricted by donor or law. Unrealized gains or losses on investments are included in the excess of revenue over expenses.

Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated balance sheet.

#### ***Assets Limited as to Use***

Assets limited as to use include assets designated by the board of directors for future capital improvement, over which the board retains control, and may, at its discretion, subsequently use for other purposes, amounts held by a bond trustee for payment of principal and interest on outstanding debt and assets temporarily restricted or permanently restricted by donor. Amounts required to meet current liabilities of the Hospital have been reclassified in the consolidated balance sheet.

#### ***Property and Equipment***

Property and equipment are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed primarily using the straight-line method. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Costs of maintenance and repairs are charged to expense when incurred.

## **Notes to Consolidated Financial Statements**

**December 31, 2017 and 2016**

### **Note 2 - Significant Accounting Policies (Continued)**

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support and are excluded from the excess of revenue over expenses, unless explicit donor stipulations specify how the donated asset must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

#### ***Derivative Financial Instruments***

The Hospital has entered into various interest rate swap agreements to manage interest rates on debt. The Hospital records its interest rate swaps as either assets or liabilities in the accompanying consolidated balance sheet at fair value. The fair value of interest rate swaps reflects the present value of the future potential gains (losses) if settlement were to take place on the consolidated balance sheet date. The Hospital has not designated any derivative instruments as hedges. Gains and losses on the derivative instruments are recognized as nonoperating income (loss) in the consolidated statement of operations during the period of change.

#### ***Classification of Net Assets***

Net assets of the Hospital are classified as permanently restricted, temporarily restricted, or unrestricted depending on the presence and characteristics of donor-imposed restrictions limiting the Hospital's ability to use or dispose of contributed assets or the economic benefits embodied in those assets. Donor-imposed restrictions that expire with the passage of time or that can be removed by meeting certain requirements result in temporarily restricted net assets. Permanently restricted net assets result from donor-imposed restrictions that limit the use of net assets in perpetuity. Earnings, gains, and losses on restricted net assets are classified as unrestricted unless specifically restricted by the donor or by applicable state law.

#### ***Excess of Revenue Over Expenses***

The consolidated statement of operations includes excess of revenue over expenses. Changes in unrestricted net assets, which are excluded from excess of revenue over expenses, consistent with industry practice, include permanent transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

#### ***Net Patient Service Revenue***

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactively calculated adjustments arising under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

## **Notes to Consolidated Financial Statements**

**December 31, 2017 and 2016**

### **Note 2 - Significant Accounting Policies (Continued)**

The Hospital recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Hospital records a significant provision for bad debts related to uninsured patients in the period the services are provided. Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period from these major payor sources in total were \$174,913,155 and \$160,022,713 for the years ended December 31, 2017 and 2016, respectively. These amounts are made up of amounts from third-party payors of \$164,972,701 and \$151,012,993 as of December 31, 2017 and 2016, respectively, and amounts from self-pay payors of \$9,940,444 and \$9,009,720 for the years ended December 31, 2017 and 2016, respectively.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes that it is in compliance with all applicable laws and regulations. Final determination of compliance of such laws and regulations is subject to future government review and interpretation. Violations may result in significant regulatory action including fines, penalties, and exclusions from the Medicare and Medicaid programs. During the year ended December 31, 2016, the Hospital reported potential violations with Stark laws under the Medicare Self-Referral Disclosure Protocol. Management is awaiting a settlement determination from the Centers for Medicare and Medicaid Services (CMS). The settlement amount, if any, cannot be estimated and no accrual has been made. No changes have been reported regarding the reported potential violations with Stark laws as of the audit report date.

#### ***Charity Care***

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charity care is determined based on established policies, using patient income and assets to determine payment ability. The amount reflects the cost of free or discounted health services, net of contributions and other revenue received, as direct assistance for the provision of charity care. The estimated cost of providing charity services is based on a calculation which applies a ratio of cost to charges to the gross uncompensated charges associated with providing care to charity patients. The Hospital estimates that it provided approximately \$2,458,000 and \$2,632,000 of services to indigent patients during 2017 and 2016, respectively.

#### ***Donor Restricted Gifts***

Unconditional promises to give cash and other assets to the Hospital are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions. Resources restricted by donors for specific operating purposes are reported as other revenue. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions.

## **Notes to Consolidated Financial Statements**

**December 31, 2017 and 2016**

### **Note 2 - Significant Accounting Policies (Continued)**

#### ***Income Taxes***

Morris Hospital & Healthcare Centers, Morris Hospital Foundation, and Morris Hospital Auxiliary are separate not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

#### ***Upcoming Accounting Pronouncements***

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for the Hospital's year ending December 31, 2018. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods. The Hospital has not yet determined which application method it will use. Management does not expect that this standard will have a significant impact to the timing and recognition pattern of the Hospital's main revenue streams. However, management has not completed its assessment on all revenue streams.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Hospital's year ending December 31, 2019 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The expected impact on the consolidated balance sheet is a significant increase in long-term assets and lease liabilities. The effects on the results of operations are not expected to be significant as recognition and measurement of expenses and cash flows for leases will be substantially the same under the new standard.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 requires significant changes to the financial reporting model of organizations that follow FASB not-for-profit rules, including changing from three classes of net assets to two classes: net assets with donor restrictions and net assets without donor restrictions. The ASU will also require changes in the way certain information is aggregated and reported by the Hospital, including required disclosures about the liquidity and availability of resources. The new standard is effective for the Hospital's year ending December 31, 2018 and thereafter and must be applied on a retrospective basis. The standard is expected to have an impact on the presentation of net assets and to result in enhanced disclosures related to liquidity and availability.

#### ***Subsequent Events***

The consolidated financial statements and related disclosures include evaluation of events up through and including April 17, 2018, which is the date the consolidated financial statements were available to be issued.

## **Notes to Consolidated Financial Statements**

**December 31, 2017 and 2016**

### **Note 3 - Accounts Receivable**

Patients accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectibility of patients accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary. For receivables associated with patient responsibility (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the patients are screened against the Hospital's charity care policy and uninsured discount policy. For any remaining patient responsibility balance, the Hospital records a provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts. The allowance for doubtful accounts at December 31, 2017 and 2016 was approximately \$15,794,000 and \$12,861,000, respectively.

### **Note 4 - Net Patient Service Revenue**

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A significant portion of the Hospital's net patient service revenue is received from Medicare and Medicaid programs. A summary of the basis of reimbursement with these third-party payors for Medicare, Medicaid, and Blue Cross are as follows:

#### ***Medicare***

Inpatient acute care and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. Certain outpatient services and specified pass-through costs are paid based upon a cost-reimbursement formula, established fee screens, or combination thereof. The Hospital is reimbursed for such items at a tentative rate with final settlement determined after submission of annual reimbursement reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

#### ***Medicaid***

Inpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates per discharge. Outpatient services rendered to Medicaid program beneficiaries are reimbursed based upon fee screens or per visit rates. Medicaid payment methodologies and rates are subject to modification based on the amount of funding available to the State of Illinois Medicaid program.

The Hospital participates in the State of Illinois (the "State") assessment program that assists in the financing of its Medicaid program. The program has been extended through June 30, 2018. Pursuant to this program, hospitals within the State are required to remit payment to the State Medicaid program under an assessment formula approved by CMS. In addition, the State of Illinois received approval for the Enhanced Hospital Assessment Program, which provides hospitals within the State with additional Medicaid reimbursement based on funding formulas, also approved by CMS.

For both the years ended December 31, 2017 and 2016, the Hospital has included its related assessment of approximately \$3,767,000 and \$3,391,000, respectively, within supplies and other expenses in the accompanying consolidated statements of operations and changes in net assets.



## Morris Hospital & Healthcare Centers

# Notes to Consolidated Financial Statements

December 31, 2017 and 2016

### Note 4 - Net Patient Service Revenue (Continued)

The assessment program also provides hospitals within the State with additional Medicaid reimbursement based on funding formulas. For the years ended December 31, 2017 and 2016, the Hospital has included its additional related Medicaid reimbursement of approximately \$8,002,000 and \$7,792,000, respectively, within net patient service revenue in the accompanying consolidated statement of operations.

#### Blue Cross

Inpatient services rendered to certain Blue Cross indemnity plan subscribers are reimbursed under a cost-reimbursement methodology. The Hospital is reimbursed at gross charges with final settlement determined after submission of annual cost reports by the Hospital and reviews by Blue Cross.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined per diem rates.

Estimated third-party settlements result from the adjustment of interim payments to final reimbursement under the Medicare and Blue Cross/Blue Shield programs that are subject to audit by fiscal intermediaries. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

### Note 5 - Investments and Assets Limited as to Use

The detail of assets limited as to use is summarized in the following schedule:

	2017	2016
Board-designated funds:		
Cash and cash equivalents	\$ 35,672	\$ 50,966
Fixed-income securities	35,923,283	31,888,181
Global equity fund	6,213,342	5,128,608
Common stocks	2,303,725	2,086,956
Mutual equity funds	16,391,855	15,510,914
Accrued interest	9,804	15,103
Total board-designated funds	60,877,681	54,680,728
Trustee-held funds - Retirement of revenue bonds:		
Cash and cash equivalents	1,702,026	1,654,899
Agency funds - Cash and cash equivalents	230,006	212,873
Total trustee-held funds	1,932,032	1,867,772
Donor-restricted assets:		
Cash and cash equivalents	953,427	822,234
Other	184,174	199,076
Total donor-restricted funds	1,137,601	1,021,310
Total assets limited as to use	63,947,314	57,569,810
Less current portion	38,061	4,143
Total long-term assets limited as to use	\$ 63,909,253	\$ 57,565,667

**Morris Hospital & Healthcare Centers****Notes to Consolidated Financial Statements****December 31, 2017 and 2016****Note 5 - Investments and Assets Limited as to Use (Continued)**

The following schedule summarized investment return and classification in the consolidated statement of operations and the consolidated statement of changes in net assets for the years ended December 31, 2017 and 2016:

	2017	2016
Return from:		
Interest and dividends	\$ 1,446,489	\$ 1,473,290
Realized gains and losses on sale of investments	465,349	667,238
Change in net unrealized gains and losses on investments	4,878,022	571,149
Total	<u>\$ 6,789,860</u>	<u>\$ 2,711,677</u>

The composition of investments at December 31, 2017 and 2016 is as follows:

	2017	2016
Classified as:		
Cash and cash equivalents	\$ 230,006	\$ 212,873
Corporate bonds and notes	811,614	667,915
Mutual equity funds	653,290	421,778
Land	369,121	369,121
Total	<u>\$ 2,064,031</u>	<u>\$ 1,671,687</u>

**Note 6 - Property and Equipment**

Property and equipment are summarized as follows:

	2017	2016	Depreciable Life - Years
Land	\$ 9,750,449	\$ 9,588,553	-
Land improvements	6,891,426	6,777,095	7-40
Buildings	81,574,430	79,845,133	2-10
Equipment	105,929,659	100,551,526	3-5
Construction in progress	347,069	77,576	-
Total cost	204,493,033	196,839,883	
Accumulated depreciation	127,663,043	121,500,073	
Net property and equipment	<u>\$ 76,829,990</u>	<u>\$ 75,339,810</u>	

## Morris Hospital & Healthcare Centers

# Notes to Consolidated Financial Statements

December 31, 2017 and 2016

### Note 7 - Long-term Debt

Long-term debt at December 31 is as follows:

	2017	2016
Village of Channahon, Illinois Series 2009A Variable Rate Demand Revenue Refunding Bonds, dated April 15, 2009, due in varying amounts through December 1, 2034, with variable interest rates of 0.80 percent and 0.75 percent at December 31, 2017 and 2016, respectively; secured by Morris Hospital & Healthcare Centers' unrestricted revenue	\$ 6,215,000	\$ 6,320,000
Village of Channahon, Illinois Series 2009B Variable Rate Demand Revenue Refunding Bonds, dated April 15, 2009, due in varying amounts through December 1, 2034, with variable interest rates of 0.80 percent and 0.75 percent at December 31, 2017 and 2016, respectively; secured by Morris Hospital & Healthcare Centers' unrestricted revenue	7,530,000	7,650,000
Village of Channahon, Illinois Series 2003A Variable Rate Demand Revenue Refunding Bonds, dated May 19, 2003, due in varying amounts through December 1, 2023, with variable interest rates of 0.80 percent and 0.75 percent at December 31, 2017 and 2016, respectively; secured by Morris Hospital & Healthcare Centers' unrestricted revenue	3,845,000	4,375,500
Village of Channahon, Illinois Series 2003B-D Variable Rate Demand Revenue Bonds, dated May 19, 2003, due in varying amounts through December 1, 2032, with variable interest rates of 0.08 percent and 0.75 percent, at December 31, 2017 and 2016, respectively; secured by Morris Hospital & Healthcare Centers' unrestricted revenue	12,630,000	13,170,000
Village of Channahon, Illinois Series 2013 Revenue Refunding Bonds, dated March 12, 2013, due in monthly amounts of \$45,000 through May 1, 2018, then \$50,000 until March 1, 2023, at an effective interest rate of 1.65 percent through March 1, 2023	3,080,000	3,620,000
Promissory note with a principal amount of \$6,000,000 was issued through a bank with a maturity of March 2021. The promissory note bears interest at 3.25 percent with monthly varied principal payments. The promissory note is secured by all accounts of Morris Hospital & Healthcare Centers	4,967,030	5,569,805
Total	38,267,030	40,705,305
Less current portion	2,460,467	2,321,310
Less unamortized debt issuance costs	374,349	424,973
Long-term debt, net of current portion and unamortized bond discount	<u>\$ 35,432,214</u>	<u>\$ 37,959,022</u>

## **Morris Hospital & Healthcare Centers**

# **Notes to Consolidated Financial Statements**

**December 31, 2017 and 2016**

### **Note 7 - Long-term Debt (Continued)**

Under the terms of the Bond Trust Indentures for the Village of Channahon, Illinois Variable Rate Demand Revenue Bonds Series 2009, Village of Channahon, Illinois Revenue Refunding Bonds Series 2003A, and the Village of Channahon, Illinois Revenue Refunding Bonds Series 2003B-D, Morris Hospital & Healthcare Centers is required to maintain certain deposits with a bond trustee. Such deposits are included with assets limited or restricted as to use and are to be used for financing of specified construction and expansion projects, providing debt service reserve funds, and maintaining sinking funds for the payment of principal and interest on outstanding bonds as they come due. The Series 2003, Series 2009, and Series 2013 bonds were issued pursuant to a Master Trust Indenture (MTI). The MTI places limits on the incurrence of additional borrowings and requires that Morris Hospital & Healthcare Centers satisfies certain measures of financial performance as long as the bonds are outstanding.

The Hospital has variable rate demand notes that have a put option available to the creditor. If the put option is exercised, the bonds are presented to the bank, which, in turn, draws on the underlying letter of credit. The series and the underlying credit facility terms are described as follows:

- **Series 2009A** - Monthly in equal installments over four years beginning after 365 days
- **Series 2009B** - Monthly in equal installments over four years beginning after 365 days
- **Series 2003A** - Monthly in equal installments over 26 years beginning after 180 days with the balance of the loan due on the later of May 27, 2019 or the last day of the 18 months after the date of the term loan
- **Series 2003B-D** - Monthly in equal installments over 26 years beginning after 180 days with the balance of the loan due on the later of May 27, 2019 or the last day of the 18 months after the date of the term loan

The scheduled principal payments on the long-term debt based on the Master Trust Indenture are as follows:

<u>Years Ending</u>	<u>Amount</u>
2018	\$ 2,460,467
2019	2,538,714
2020	2,597,213
2021	5,335,636
2022	2,105,000
Thereafter	<u>23,230,000</u>
Total	<u>\$ 38,267,030</u>

### **Note 8 - Derivatives**

The Hospital is exposed to certain risks in the normal course of its business operations. The main risks are those relating to the variability of future earnings and cash flows, which are managed through the use of derivatives. All derivative financial instruments are reported in the consolidated balance sheet at fair value.

## Morris Hospital & Healthcare Centers

# Notes to Consolidated Financial Statements

December 31, 2017 and 2016

### Note 8 - Derivatives (Continued)

By using derivative financial instruments to hedge exposures to changes in interest rates, the Hospital exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contracts. When the fair value of a derivative contract is positive, the counterparty owes the Hospital, which creates credit risk for the Hospital. When the fair value of a derivative contract is negative, the Hospital owes the counterparty and, therefore, it does not possess credit risk. The Hospital minimizes the credit risk in derivative instruments by entering into transactions with high-quality counterparties whose credit rating is higher than Aa. Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest rate changes is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

The Hospital is exposed to credit loss in the event of nonperformance by the counterparty to the interest rate swap agreements; however, this is not anticipated.

The Hospital had the following:

	Liability Derivatives	
	2017	2016
Derivatives not designated as hedging instruments - Interest rate swaps	\$ 3,383,789	\$ 3,836,360

Liability derivatives are reported on the consolidated balance sheet within other long-term liabilities.

For the years ended December 31, the Hospital had the following interest rate swap agreements:

Swap Type	Maturity Date	Hospital Receives	Hospital Pays	Notional Amount at December 31	
				2017	2016
Fixed payor	12/1/2023	67% of one-month LIBOR	2.760%	\$ 3,845,000	\$ 4,375,000
Fixed payor	12/1/2032	67% of one-month LIBOR	3.303%	12,630,000	13,170,000
Fixed payor	12/1/2034	BMA Municipal Swap Index	3.275%	13,745,000	13,970,000
Variable payor	6/1/2021	1.300%	SIFMA Municipal Swap Index	-	30,220,000
Variable payor	12/1/2034	67% of USD-LIBOR-BBA	SIFMA Municipal Swap Index	13,745,000	13,970,000

The variable payor swap that had an original maturity date of June 1, 2021 was terminated in 2017, which resulted in a termination payment of \$57,000.

For the years ended December 31, the amounts of gain or loss recognized in the consolidated statement of operations attributable to derivative instruments and their locations in the consolidated statement of operations are as follows:

	Amount of (Loss) Gain Recognized in Earnings		Reported in Consolidated Statement of Operations
	2017	2016	
Net settlements for derivative instruments	\$ (648,157)	\$ (558,354)	Nonoperating
Change in fair value of interest rate swap agreements	395,571	145,604	Nonoperating
Total	\$ (252,586)	\$ (412,750)	

## Morris Hospital & Healthcare Centers

# Notes to Consolidated Financial Statements

December 31, 2017 and 2016

### Note 9 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the consolidated financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

The following tables present information about the Hospital's assets and liabilities measured at fair value on a recurring basis at December 31, 2017 and 2016 and the valuation techniques used by the Hospital to determine those fair values.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities that the Hospital has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable either directly or indirectly. These Level 2 inputs include quoted prices for similar assets and liabilities in active markets and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset or liability. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset or liability.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Hospital's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

Assets and Liabilities Measured at Fair Value on a Recurring Basis at December 31, 2017				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2017
<b>Assets</b>				
Assets limited as to use:				
Cash and cash equivalents	\$ 2,921,131	\$ -	\$ -	\$ 2,921,131
Common stocks	2,303,725	-	-	2,303,725
Fixed-income securities	-	35,923,283	-	35,923,283
Mutual equity funds	16,391,855	-	-	16,391,855
Global equity fund measured at net asset value				6,213,342
Total assets limited as to use	21,616,711	35,923,283	-	63,753,336
Long-term investments:				
Cash and cash equivalents	230,006	-	-	230,006
Corporate bonds and notes	-	811,614	-	811,614
Mutual equity funds	653,290	-	-	653,290
Total long-term investments	883,296	811,614	-	1,694,910
Total assets	\$ 22,500,007	\$ 36,734,897	\$ -	\$ 65,448,246
<b>Liabilities - Derivative instruments</b>	\$ -	\$ 3,383,789	\$ -	\$ 3,383,789

# Morris Hospital & Healthcare Centers

## Notes to Consolidated Financial Statements

December 31, 2017 and 2016

### Note 9 - Fair Value Measurements (Continued)

Assets and Liabilities Measured at Fair Value on a Recurring Basis at December 31, 2016				
	Quoted Prices in			
	Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2016
<b>Assets</b>				
Assets limited as to use:				
Cash and cash equivalents	\$ 2,933,330	\$ -	\$ -	\$ 2,933,330
Common stocks	2,086,956	-	-	2,086,956
Fixed-income securities	-	31,888,181	-	31,888,181
Mutual equity funds	15,510,914	-	-	15,510,914
Global equity fund measured at net asset value				5,128,608
Total assets limited as to use	20,531,200	31,888,181	-	57,547,989
Long-term investments:				
Cash and cash equivalents	212,873	-	-	212,873
Corporate bonds and notes	-	667,915	-	667,915
Mutual equity funds	421,778	-	-	421,778
Total long-term investments	634,651	667,915	-	1,302,566
Total assets	\$ 21,165,851	\$ 32,556,096	\$ -	\$ 58,850,555
<b>Liabilities - Derivative instruments</b>	\$ -	\$ 3,836,360	\$ -	\$ 3,836,360

The fair value of fixed-income securities, corporate bonds and notes, and derivative instruments at December 31, 2017 and 2016 was determined primarily based on Level 2 inputs. The Hospital estimates the fair value of these investments using quoted prices for similar assets in active markets. The fair value of the assets was determined primarily based on quoted market prices from the investment custodian. The Level 2 inputs used in estimating the fair value of the derivative instruments include the notional amount, effective interest rate, and maturity date.

The Hospital's policy is to recognize transfers in and transfers out of Level 1, 2, and 3 fair value classifications as of the end of the reporting period. There were no significant transfers between levels for the years ended December 31, 2017 and 2016.

#### **Investments in Entities that Calculate Net Asset Value per Share**

The Hospital holds shares or interests in investment companies at year end whereby the fair value of the investment held is estimated based on the net asset value per share (or its equivalent) of the investment company.

## Morris Hospital & Healthcare Centers

# Notes to Consolidated Financial Statements

December 31, 2017 and 2016

### Note 9 - Fair Value Measurements (Continued)

At year end, the fair value, unfunded commitments, and redemption rules of those investments are as follows:

Investments Held at December 31, 2017				
	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Global equity fund	\$ 6,213,342	\$ -	Monthly	15-day prenotification
Investments Held at December 31, 2016				
	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Global equity fund	\$ 5,128,608	\$ -	Monthly	15-day prenotification

Global equity fund classification includes a diversified portfolio of global equity funds in order to provide long-term growth for participants. The net asset value of the fund is determined using the fair value of the portfolio as of the close of business at the end of month.

### Note 10 - Investment in Joint Venture

The Hospital has a 48.38 percent ownership interest in an ambulatory surgical center joint venture, Deerpath Surgery Center, which is accounted for using the equity method at December 31, 2017 and 2016. The Hospital's investment in joint venture at December 31, 2017 and 2016 is approximately \$127,000 and \$167,000, respectively.

The following table summarizes unaudited financial information of the joint venture as of December 31, 2017 and 2016:

	2017	2016
Total assets	\$ 1,050,419	\$ 1,322,607
Total liabilities	793,071	800,097
Total equity	<u>\$ 257,348</u>	<u>\$ 522,510</u>
Net revenue	\$ 1,701,126	\$ 2,198,746
Operating expenses	1,566,979	1,905,525
Net income	<u>\$ 134,147</u>	<u>\$ 293,221</u>

### Note 11 - Retirement Plan

The Hospital sponsors a contributory matching Section 403(b) plan (the "Plan"). The Plan covers employees with one year of service and provides employer matching contributions ranging from 50 percent to 65 percent, based on total years of service, for elective deferrals up to a maximum of 5 percent of employee compensation. The Plan also allows for annual employer discretionary contributions on behalf of all employees. For the years ended December 31, 2017 and 2016, the Hospital expensed \$1,784,832 and \$1,262,440, respectively, in matching and discretionary contributions to the Plan. The Hospital funds the matching contributions to the Plan on a current basis.



## Morris Hospital & Healthcare Centers

# Notes to Consolidated Financial Statements

December 31, 2017 and 2016

### Note 12 - Medical Malpractice Claims

Based on the nature of its operations, the Hospital is at times subject to pending or threatened legal actions, which arise in the normal course of its activities.

The Hospital participates in the Illinois Provider Trust (the "Trust"), which was established on a pooled risk basis to provide professional and general liability coverage to member hospitals. The Trust provided primary insurance coverage on an occurrence basis through December 31, 2004. Effective January 1, 2005, the Trust began providing primary insurance coverage on a claims-made basis. Excess liability coverage is provided through the Trust, which changed from occurrence to claims-made basis coverage effective January 1, 2002. Funding of the Trust is determined by annual actuarial valuations based on member hospitals' loss experience. If the actual loss experience of the Trust exceeds the actuarially projected loss experience, additional contributions to the Trust may be required from the Hospital. Total contributions to the Trust amounted to approximately \$1,150,000 and \$940,000 for the years ended December 31, 2017 and 2016, respectively, and have been charged to operating expenses as the Hospital's best estimate of professional and general liability cost. The Hospital also recognizes provisions for incurred-but-not-reported loss exposures under claims-made basis policies.

The Hospital has accrued a liability of approximately \$5,457,000 and \$4,875,000 for the years ended December 31, 2017 and 2016, respectively. Although the ultimate settlement of these accruals may vary from these estimates, management believes that the amounts provided in the consolidated financial statements are adequate. Insurance recoveries are expected to satisfy a portion of these liabilities; therefore, to the extent that the Hospital is indemnified for these liabilities, the Hospital recognized an insurance receivable for approximately \$4,241,000 and \$3,858,000 for the years ended December 31, 2017 and 2016, respectively.

### Note 13 - Self Insurance

The Hospital has a self-insured medical plan for employee group health and dental insurance coverage for all of its eligible employees. The Hospital maintains stop-loss insurance coverage, which limits the amount of risk retained by the Hospital for self-insured healthcare claims. The Hospital's individual excess risk benefit level per employee for 2017 and 2016 was \$150,000. Losses in excess of these limitations are covered by reinsurance. Amounts expensed by the Hospital under the plan were approximately \$13,959,000 and \$10,838,000 for 2017 and 2016, respectively. The Hospital has recorded within accounts payable and accrued expenses of approximately \$862,000 and \$1,283,000 at December 31, 2017 and 2016, respectively, for known claims and estimated claims incurred but not reported.

### Note 14 - Operating Leases

The Hospital is obligated under operating leases primarily for space in various buildings and various pieces of equipment, expiring at various dates through 2025. The leases require the Hospital to pay taxes, insurance, utilities, and maintenance costs. Total rent expense under these leases was \$2,768,733 and \$2,605,938 for 2017 and 2016, respectively.

Future minimum annual commitments under these operating leases are as follows:

Years Ending December 31	Amount
2018	\$ 984,982
2019	674,774
2020	561,119
2021	539,974
2022	541,977
Thereafter	5,882,235
Total	<u>\$ 9,185,061</u>

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## Supplemental Information

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## Independent Auditor's Report on Supplemental Information

To the Board of Directors  
Morris Hospital & Healthcare Centers

We have audited the consolidated financial statements of Morris Hospital & Healthcare Centers and its subsidiaries as of and for the years ended December 31, 2017 and 2016 and have issued our report thereon dated April 17, 2018, which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the 2017 consolidated financial statements as a whole. The consolidating balance sheet and consolidating statement of operations are presented for the purpose of additional analysis rather than to present the financial position, results of operations, and cash flows of the organizations and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the 2017 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the 2017 consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the 2017 consolidated financial statements as a whole.

*Plante & Moran, PLLC*

April 17, 2018

**Morris Hospital & Healthcare Centers**
**Consolidating Balance Sheet**
**December 31, 2017**

	Morris Hospital & Healthcare Centers	Morris Hospital Foundation	Morris Hospital Auxiliary	Eliminating Entries	Total
<b>Assets</b>					
<b>Current Assets</b>					
Cash and cash equivalents	\$ 34,495,427	\$ 423,209	\$ 34,340	\$ -	\$ 34,952,976
Assets limited as to use - Current	38,061	-	-	-	38,061
Accounts receivable - Net	33,475,905	-	-	-	33,475,905
Inventories, prepaid, and other	6,221,817	46,088	24,198	(74,857)	6,217,246
Total current assets	74,231,210	469,297	58,538	(74,857)	74,684,188
<b>Assets Limited as to Use - Net of current portion</b>	62,658,908	1,250,345	-	-	63,909,253
<b>Property and Equipment - Net</b>	76,829,990	-	-	-	76,829,990
<b>Intangible Assets</b>	346,691	-	-	-	346,691
<b>Other Assets</b>					
Estimated insurance recoveries	4,241,460	-	-	-	4,241,460
Investments	272,025	1,792,006	-	-	2,064,031
Investment in joint ventures	127,325	-	-	-	127,325
Total other assets	4,640,810	1,792,006	-	-	6,432,816
<b>Total assets</b>	<b>\$ 218,707,609</b>	<b>\$ 3,511,648</b>	<b>\$ 58,538</b>	<b>\$ (74,857)</b>	<b>\$ 222,202,938</b>

**Morris Hospital & Healthcare Centers**
**Consolidating Balance Sheet (Continued)**
**December 31, 2017**

	Morris Hospital & Healthcare Centers	Morris Hospital Foundation	Morris Hospital Auxiliary	Eliminating Entries	Total
<b>Liabilities and Net Assets</b>					
<b>Current Liabilities</b>					
Accounts payable and accrued expenses	\$ 14,085,703	\$ 74,857	\$ 8,976	\$ (74,857)	\$ 14,094,679
Agency funds	230,006	-	-	-	230,006
Current portion of long-term debt	2,460,467	-	-	-	2,460,467
Estimated third-party payor settlements	11,759,408	-	-	-	11,759,408
Total current liabilities	28,535,584	74,857	8,976	(74,857)	28,544,560
<b>Long-term Debt - Net of current portion</b>	35,432,214	-	-	-	35,432,214
<b>Other Liabilities</b>					
Estimated insurance liabilities	5,457,293	-	-	-	5,457,293
Other long-term liabilities	3,524,231	-	-	-	3,524,231
Total other liabilities	8,981,524	-	-	-	8,981,524
Total liabilities	72,949,322	74,857	8,976	(74,857)	72,958,298
<b>Net Assets</b>					
Unrestricted	145,705,554	2,536,097	49,562	-	148,291,213
Temporarily restricted	32,733	657,612	-	-	690,345
Permanently restricted	20,000	243,082	-	-	263,082
Total net assets	145,758,287	3,436,791	49,562	-	149,244,640
Total liabilities and net assets	<b>\$ 218,707,609</b>	<b>\$ 3,511,648</b>	<b>\$ 58,538</b>	<b>\$ (74,857)</b>	<b>\$ 222,202,938</b>

**Morris Hospital & Healthcare Centers**
**Consolidating Statement of Operations**
**Year Ended December 31, 2017**

	Morris Hospital & Healthcare Centers	Morris Hospital Foundation	Morris Hospital Auxiliary	Eliminating Entries	Total
<b>Unrestricted Revenue, Gains, and Other Support</b>					
Net patient service revenue	\$ 174,913,155	\$ -	\$ -	\$ -	\$ 174,913,155
Provision for bad debts	(10,075,769)	-	-	-	(10,075,769)
Net patient service revenue less provision for bad debts	164,837,386	-	-	-	164,837,386
Contributions and other	1,629,120	247,996	345,632	-	2,222,748
Net assets released from restrictions	-	86,409	-	-	86,409
Total unrestricted revenue, gains, and other support	166,466,506	334,405	345,632	-	167,146,543
<b>Expenses</b>					
Salaries and benefits	95,842,382	66,216	-	-	95,908,598
Supplies and other	57,328,843	(17,700)	353,497	-	57,664,640
Depreciation and amortization	9,432,532	-	-	-	9,432,532
Interest expense	550,782	-	-	-	550,782
Total expenses	163,154,539	48,516	353,497	-	163,556,552
<b>Operating Income (Loss)</b>	3,311,967	285,889	(7,865)	-	3,589,991
<b>Nonoperating Income (Expense)</b>					
Investment return	6,411,078	364,295	-	-	6,775,373
Other	(4,982)	-	-	-	(4,982)
Net settlements for derivative instruments	(648,157)	-	-	-	(648,157)
Change in fair value of interest swap agreements	395,571	-	-	-	395,571
Total nonoperating income	6,153,510	364,295	-	-	6,517,805
<b>Excess of Revenue Over (Under) Expenses</b>	9,465,477	650,184	(7,865)	-	10,107,796
<b>Transfer from (to) Affiliate</b>	295,218	(295,218)	-	-	-
<b>Increase (Decrease) in Unrestricted Net Assets</b>	<u>\$ 9,760,695</u>	<u>\$ 354,966</u>	<u>\$ (7,865)</u>	<u>\$ -</u>	<u>\$ 10,107,796</u>

## **MORRIS HOSPITAL & HEALTHCARE CENTERS Modernization Project**

### **Debt Financing**

Morris Hospital & Healthcare Centers is planning multiple capital improvement projects: this Hospital modernization and renewal, two new community-based healthcare centers, and other projects not subject to CON. To finance these projects, the Hospital has committed \$5.5 million in cash and securities to this project plus the issuance of bonds in the amount of about \$60 million.

Morris Hospital & Healthcare Centers has applied to the Upper Illinois River Valley Development Authority (UIRVDA) to act as the issuer of these bonds. Having UIRVDA as the issuer of the bonds permits the Hospital to utilize that agency's double tax-exempt status. Private financial companies are to issue the bonds on behalf of the UIRVDA. The Hospital has already issued a Request for Proposals and received multiple responses from private financial companies.

Inserted below is information regarding the UIRVDA program and a copy of the Barclays proposal to issue the bonds. Note that within the Barclays' proposal, there is a projected interest rate of 4.749 percent for conventional tax-exempt bonds. With issuance through UIRVD, the Hospital's financial advisors expect this rate to be about 4.6 percent.

The actual issuance of the bonds will occur after approval of this CON application for permit



The Upper Illinois  
River Valley Development  
Authority

## Tax Free Bond Financing

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### Description

The Upper Illinois River Valley Development Authority (UIRVDA) acts as the issuer of the bonds, passing its DOUBLE tax-exempt status on to finance the acquisition of fixed assets including land, buildings, machinery and equipment. Because the interest on the bonds is not subject to state or federal income taxes, investors and lenders require a lower interest rate to achieve an equivalent after-tax return. Therefore, the borrower receives a preferential interest rate, generating substantial savings.

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### Eligibility

- **Manufacturing Bonds** – Industrial Revenue Bonds are available for manufacturers of tangible goods. At least 75% of the bond proceeds must be used for expenditures directly related to the manufacturing process. No more than 25% may be used for ancillary facilities such as warehouse or office space. The borrower's capital expenditures cannot be greater than \$20 million (except with a lease) in the city where the project is located. This \$20 million is the amount spent over a defined six-year period: 3 years before financing and 3 years after.
- **Not-For-Profit Bonds** – Tax-Exempt bonds are available for Not-For-Profit 501c(3) companies. Eligible borrowers are any 501c(3), which can include hospital systems, medical centers, behavioral health centers, medical clinics, continuing care centers, and YMCAs.
- **Housing Bonds** – Senior housing and multi-family housing bonds are available to for-profit developers. Developers must agree to set aside a portion of a financed project's units for tenants at a certain income level.
- Funds can be used to build a new facility, acquire land and buy new machinery and equipment. Funds can be used to acquire an existing facility as long as 15% or more is used to rehab the structure. Funds expended prior to sixty days before receiving initial approval from UIRVDA may not be eligible.
- The capital improvements must take place in the territory of UIRVDA in the counties of Bureau, Grundy, Kane, Kendall, Lake, LaSalle, Marshall, McHenry and Putnam.

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### Benefits

- **Lower Interest Rate** – An UIRVDA Double Tax Exempt Bond is exempt from state and federal income taxes, making it an attractive investment for the bondholder. The interest rate available on these bonds is far lower than conventional financing, and you can expect your interest savings to range from 150 – 300 basis points (1.5% - 3.0%) lower than a conventional loan. For example a \$5.0 mil bond would save over \$1,500,000 in interest over a term of 30 years.
- **Finance up to 100% of the project cost** – contingent upon meeting credit standards of a local bank backing the bond.
- **Smooth Process** – UIRVDA has been described as a "Nimble Issuer" with flexible guidelines and expedited approval. UIRVDA assembles a team that has a thorough understanding of all the legal and financial aspects of the transaction and will work closely with you every step of the way, answering questions, helping avoid pitfalls and making sure the financing is right for you.

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### Application

Companies interested should complete a one-page application and submit a non-refundable application fee. There is an issuance fee paid at closing along with other professional costs. The cost of issuing a Bond is generally more expensive than a conventional loan, but the total costs are usually break even in the first year of interest savings and will continue through the life of the bond.

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### Contact

For more information please contact Andrew Hamilton, Executive Director, Upper Illinois River Valley Development Authority (UIRVDA), 633 South LaSalle Street, Suite 401, Ottawa, Illinois 61350, Tel: 866-325-7575, Email: [andrew.hamilton@uirvda.com](mailto:andrew.hamilton@uirvda.com)





August 22, 2018

**Morris Hospital**  
150 W High St  
Morris, IL 60450

**Kaufman Hall**  
5202 Old Orchard Road  
Skokie, IL 60077

Mary Lou Tate, *Chief Financial Officer*

Eric Jordahl, *Managing Director*  
Bobby Bruning, *Senior Associate*

Dear Mary Lou, Eric, and Bobby –

On behalf of Barclays, we are very pleased to submit our proposal to serve as investment banker to Morris Hospital. We are excited about the opportunity to continue our long-standing relationship and to serve as Senior Manager on the proposed Series 2018 Bonds.

I have had the personal privilege of a 30-year relationship with Morris Hospital dating back to its Series 1987 issue. Over the last 8+ years, while at Barclays, we have served as Remarketing Agent on the Series 2003A-D and 2009A&B Bonds, as well as, counterparty to two separate derivative transactions we initiated. The first of these was a basis swap overlay which has generated \$541,178 of positive cashflow since its inception through August 1, 2018 and continues to remain outstanding, and the second, was a fixed receiver swap that generated \$821,000 of positive cash flow net of costs to Morris Hospital (the transaction was terminated on March 2, 2017).

We have highlighted several factors below that we believe make Barclays best suited to serve as your investment banking partner:

- **History with the Proposed Project** – We have worked with Morris Hospital since the original project scope and cost was proposed in 2016. In this work, we identified the range of debt capacity at various rating levels, provided our analysis to the Board of Trustees, assisted Morris Hospital in presenting the various options to Standard & Poor's for its Rating Evaluation Service, helped frame the project affordability and worked with the Board to advance the project, most recently in November 2017, and assisted in the rating presentation in December 2017 that affirmed the existing rating.
- **Leading Municipal Underwriter** – *Barclays is a consistent leader in municipal underwriting, ranking 5th nationwide in senior managed transactions over the past decade.* In addition, Barclays' execution is the strongest among its investment banking peers. *Bonds priced by Barclays trade with the smallest median new issue concession resulting in our underwritten bonds being priced closer to fair market value than any other firm.*
- **Capital Commitment and Underwriting Capability** – Barclays is among the world's largest banks with \$1.5 trillion of total assets and a market capitalization of approximately \$40+ billion to support its clients' needs. In particular, Barclays has both the ability and desire to serve as a credit partner to Morris Hospital and is able to support Morris Hospital's full credit needs as described in **Question 3**.
- **Top 5 Ranked Healthcare Banking Franchise** – We currently have outstanding \$3+ billion of credit in support of our healthcare clients and have underwritten \$10 billion of par value as Senior Manager since January 1, 2014, ranking us 5<sup>th</sup> nationally.
- **Illinois Experience** – In Illinois, we have served as Senior or Co-Senior manager for a number of healthcare providers including: Carle Foundation, Little Company of Mary Hospital, Memorial Hospital, Northwestern Medicine, OSF Healthcare, and Riverside Health System. In addition, we have been engaged by Edward-Elmhurst Healthcare to serve as Senior Manager on a \$75 million taxable issue and



as Co-Senior Manager on a \$125 million tax-exempt issue. In late 2017, Barclays served as Senior Manager on a \$4.5 billion issue for the State of Illinois, the largest single bond issue since the 2008 Financial Crisis. We have also served as Senior or Co-Senior manager on a number of other issues for our Illinois municipal clients, such as, The City of Chicago Board of Education, University of Chicago, and Northwestern University.

We hope that our proposal conveys in the strongest possible terms our desire to work with Morris Hospital as your investment banking partner. We commit that Morris Hospital will be given the highest priority from Barclays. I will personally lead the efforts of our broad, multidisciplinary, and experienced team dedicated to Morris Hospital. As always, please feel free to call us if we can provide any additional information.

Best regards,

A handwritten signature in black ink, appearing to read "Jay Sterns".

Jay Sterns, Co-Head of Municipal Healthcare Group

## BARCLAYS CAPITAL MARKET PERSPECTIVES

### CALLABLE PREMIUM BONDS: UNDERSTANDING YOUR POTENTIAL TRUE COST OF CAPITAL

Today's fixed rate debt markets provide an attractive opportunity for borrowers. Interest rates are near all-time historical lows. Long-term bond fund flows have turned positive while new issue supply has been low—increasing demand for tax-exempt debt. U.S. economic data shows early signs of recovery, and Meredith Whitney's projected "hundreds of billions" in municipal defaults seems a distant memory.

While today's debt markets provide borrowers the opportunity to lock in historically low interest rates, borrowers should remain aware of a unique dynamic that affects the potential true cost of capital. This dynamic arises because of investor preference for *higher bond coupons vis-à-vis historically low market yields*. When combined with the standard 10-year call provision in most fixed rate debt issuances, these *callable premium bonds* create divergent future cost of capital scenarios.

This dynamic is most easily illustrated through an example. Let's assume a borrower ("Hospital") delivered a 30-year fixed rate bond on 1/1/2012<sup>(a)</sup>. The bond matures on 1/1/2042, and includes a 10-year optional call provision on 1/1/2022 at par. For this example, we will assume a 5.000% coupon and a 4.500% yield. Since the yield is lower than the coupon, the bond will be sold for a premium (i.e., a price above its face value). The bond prices implied by this coupon and yield for a \$100 bond are as follows:

Price to 1/1/2022 Call = 103.990  
Price to 1/1/2042 Maturity = 108.187

Investors always pay the lowest price based upon the most conservative yield scenario—in this case 4.500%. That is, if the investor purchases the bond on 1/1/2012 for 103.990 and holds it until it is called at par on 1/1/2022, the investor received—and the Hospital paid—a yield of 4.500%<sup>(b)</sup>. Since the bond has the potential to be called and is sold for a premium, *the investor pays the most conservative price assuming it will be called*.

While a refunding of the bond on the call date is one possible outcome, what happens to the borrowing cost if the bond is not refunded? Let's now assume that higher interest rates in upcoming years make a 1/1/2022 refunding uneconomical for the Hospital, and the bond remains outstanding through its stated maturity of 1/1/2042. Since the investor paid 103.990 for the bond on 1/1/2012, this value is fixed. The yields implied by the 5.000% coupon and 103.990 price are as follows:

Yield to 1/1/2022 Call = 4.500% <sup>(b)</sup>  
Yield to 1/1/2042 Maturity = 4.749% <sup>(b)</sup>

As discussed above, the price paid by the investor in the original offering—103.990—was a price to the 1/1/2022 call date. Therefore, the yield to call of 4.500% is the same as it was at the time of the offering. However, if the bond is not called and remains outstanding until its 1/1/2042 maturity, a price of 103.990 and 5.000% coupon imply a yield to maturity of 4.749%. This is 25 basis points higher than the yield to call, and thus *25 basis points more expensive to the Hospital*. Stated differently, assume that the 30-year MMD rate was 3.500% on 1/1/2012. Based on the offering price and yield to call of 4.500%, the Hospital issued the bond at a spread of 100 basis points to MMD (i.e., MMD of 3.500% + 100 basis points = 4.500%). However, if the bond is not refunded and remains outstanding to maturity, the Hospital actually issued the bond at a spread of approximately 125 basis points to MMD (i.e., MMD of 3.500% + ~125 basis points = 4.749%).

Today's market presents a unique opportunity to issue historically low-cost fixed rate debt. However, current investor preference for callable premium bonds necessitates an understanding of not only the yield to call, but also the potentially "more expensive" yield to maturity. A critical analysis of structuring alternatives, such as par bonds and discount bonds, should be analyzed in conjunction with callable premium bonds. This will provide the borrower with data appropriate for the most informed decision.

If you have any question or would like to discuss the analytics in more detail, please do not hesitate to contact anyone on the Barclays Capital Healthcare Team.

(a) Assumes semi-annual coupon payments commencing on July 1, 2012.  
(b) Assumes reinvestment of coupon payments at yield.

**MORRIS HOSPITAL & HEALTHCARE CENTERS**  
Modernization Project

**FINANCIAL VIABILITY RATIOS**

	Historical			Projected	Projected	Projected
	3 Years					
Enter Historical and/or Projected Years:	2015	2016	2017	2018	2019	2023
Current Ratio	2.897	3.020	2.616	2.095	2.222	2.222
Net Margin Percentage	7.72%	6.52%	6.05%	3.43%	3.91%	4.97%
Percent Debt to Total Capitalization	28.6%	29.3%	25.6%	23.4%	58.3%	42.4%
Projected Debt Service Coverage	10.005	6.571	6.375	4.932	2.781	3.558
Days Cash on Hand	253.731	283.793	234.128	228.489	218.444	222.998
Cushion Ratio	43.179	36.332	30.981	28.652	12.148	14.670

**MORRIS HOSPITAL & HEALTHCARE CENTERS**  
Modernization Project

**Ratios Worksheet**

	Historical 3 Years			Projected		
Enter Historical and/or Projected Years:	2015	2016	2017	2018	2019	2023
Current Assets	70,429,211	70,219,749	74,684,188	64,331,901	62,772,459	62,772,459
Current Liabilities	24,311,268	23,248,896	28,544,560	30,709,571	28,252,805	28,252,805
Net Revenues	147,249,736	157,148,497	167,146,543	179,155,604	190,398,893	206,093,885
ST & LT Debt	36,930,000	40,705,305	38,267,030	35,804,841	91,264,347	73,102,371
Total Net Assets	129,069,391	139,005,561	149,244,640	152,970,707	156,457,072	172,457,072
Net Income + Depreciation + Interest Payments	20,476,638	19,811,654	20,343,696	17,090,992	22,780,392	26,560,218
Total Debt	36,930,000	40,705,305	38,267,030	35,804,841	91,264,347	73,102,371
Operating Cash & Investments	88,376,950	109,546,872	98,862,229	99,294,517	99,503,183	109,503,183
Operating Expense	135,980,922	149,610,999	163,556,552	168,556,552	177,954,542	192,623,719
Depreciation	8,847,927	8,717,364	9,432,532	9,938,389	11,694,117	13,390,615
Operating expense (excluding depreciation)	127,132,995	140,893,635	154,124,020	158,618,163	166,260,425	179,233,104
Daily Operating Expenses	348,310	386,010	422,258	434,570	455,508	491,050
Operating Cash & Investments	88,376,950	109,546,872	98,862,229	99,294,517	99,503,183	109,503,183
Debt Principle Payments	1,785,857	2,166,410	2,387,651	2,462,189	4,540,494	4,540,494
Interest/Derivative Expense	260,878	848,782	803,368	1,003,368	3,650,574	2,924,095
Total Payments	2,046,735	3,015,192	3,191,019	3,465,557	8,191,068	7,464,589

**MORRIS HOSPITAL & HEALTHCARE CENTERS**  
Modernization Project

**ECONOMIC FEASIBILITY**

**Reasonableness of Financing Arrangements/Conditions of Debt Financing**



August 26, 2018

Mr. Michael Constantino  
Project Review Supervisor  
Illinois Health Facilities & Services Review Board  
525 West Jefferson Street, 2<sup>nd</sup> Floor  
Springfield, Illinois 62761

RE: Criterion 1120.140(b); Conditions of Debt Financing Certification

Dear Mr. Constantino:

I hereby certify, under penalty of perjury as provided in §1-109 of the Illinois Code of Civil Procedure, 735 ILCS 5/1-109, and pursuant to 77 Ill. Admin Code § 1120.140(b), to the following:

1. Morris Hospital & Healthcare Centers plan on issuing a \$60 million bond, in part to fund the Morris Hospital Modernization project for the Emergency Room, Imaging, Cardiology and other departments within the main hospital.
2. These funds will also be used for other projects, namely outpatient locations in the Diamond/Coal City and Ottawa areas.
3. Morris Hospital & Healthcare Centers believe that at no time will the Current Ratio drop below 2.0 times for the Hospital.
4. It is anticipated that the bonds will be issued through Upper Illinois River Valley Development Authority (UIRVA).
5. Morris Hospital is still finalizing terms of the bond issuance. However Barclays has offered to issue the bonds for 30 years, fixed rate of approximately 4.6% total rate. We will offer the bonds at the lowest net cost available.

The bond is the lowest net cost form of financing available, and has the most advantageous terms and conditions, to the Morris Hospital Modernization Project.

Sincerely,

Mary Lou Tute  
Chief Financial Officer, Morris Hospital

150 West High Street, Morris, IL 62450 618 920 1932 [www.morris-hospital.org](http://www.morris-hospital.org)  
People You Know. Extraordinary Care.

**MORRIS HOSPITAL & HEALTHCARE CENTERS**  
Modernization Project

Subscribed and Sworn to before me  
This 27<sup>th</sup> day of August 2018

Amy L. Skubic  
Notary Public



**MORRIS HOSPITAL & HEALTHCARE CENTERS**  
Modernization Project

**Reasonableness of Project and Related Costs**

COST AND GROSS SQUARE FEET BY DEPARTMENT OR SERVICE									
Department	A	B	C	D	E	F	G	H	
	Cost/Square Foot		Gross Sq. Ft.		Gross Sq. Ft.		Addition \$	Mod. \$	Total Cost
	New	Mod.	New	Circ.*	Mod.	Circ.*	(A x C)	(B x E)	(G + H)
<b>REVIEWABLE</b>									
Emergency Department	\$360.50	\$ 350.78	1,250		10,421		\$ 450,627	\$ 3,655,450	\$ 4,106,077
General Radiology (General/Fluoroscopy/ Bone Densitometry)	\$980.19	\$ 91.18	198		4,997		\$ 194,195	\$ 455,632	\$ 649,826
CT	\$297.40	\$ 85.45	1,061		2,536		\$ 315,629	\$ 216,712	\$ 532,340
Mammography (Incl. Stereotactic)	\$350.38	\$ 370.01	1,436		360		\$ 503,069	\$ 133,203	\$ 636,272
Ultrasound	\$486.55	\$ 184.11	455		3,142		\$ 221,281	\$ 578,462	\$ 799,743
Nuclear Medicine	\$ -	\$ 211.22	0		3,375		\$ -	\$ 712,882	\$ 712,882
OR	\$ -	\$ 216.94	0		2,731		\$ -	\$ 592,463	\$ 592,463
Procedure	\$ -	\$ 239.73	0		527		\$ -	\$ 126,339	\$ 126,339
Non-Invasive Diagnostics	\$ -	\$ 258.18	0		4,298		\$ -	\$ 1,109,656	\$ 1,109,656
Infusion Therapy	\$ -	\$ 334.02	0		1,678		\$ -	\$ 560,490	\$ 560,490
Phlebotomy	\$ -	\$ 268.37	0		959		\$ -	\$ 257,372	\$ 257,372
PAT	\$ -	\$ 333.79	0		415		\$ -	\$ 138,358	\$ 138,358
<b>Total Clinical Service Areas</b>	<b>\$382.91</b>	<b>\$ 240.90</b>	<b>4,400</b>		<b>35,439</b>		<b>\$ 1,684,800</b>	<b>\$ 8,537,018</b>	<b>\$10,221,818</b>
<b>NON REVIEWABLE</b>									\$ -
Administration	\$ -	\$ 458.78	0		6,217		\$ -	\$ 2,852,216	\$ 2,852,216
Education	\$ -	\$ 324.80	0		3,108		\$ -	\$ 1,009,477	\$ 1,009,477
Public Areas	\$ -	\$ 146.20	9		6,159		\$ -	\$ 900,463	\$ 900,463
Conference	\$ -	\$ 481.01	0		825		\$ -	\$ 396,829	\$ 396,829
Infrastructure Upgrades								\$ 4,468,836	\$ 4,468,836
<b>Total Non-Clinical Service Areas</b>	<b>\$ -</b>	<b>\$ 590.34</b>	<b>9</b>		<b>16,309</b>		<b>\$ -</b>	<b>\$ 9,627,821</b>	<b>\$ 9,627,821</b>
<b>TOTALS</b>	<b>\$382.13</b>	<b>\$ 351.03</b>	<b>4,409</b>		<b>51,748</b>		<b>\$ 1,684,800</b>	<b>\$ 18,164,838</b>	<b>\$19,849,638</b>

Note that these are the estimated departmental costs for new and modernization contracts. Construction contingencies are not included.



**MORRIS HOSPITAL & HEALTHCARE CENTERS**  
Modernization Project

**Projected Operating Costs**

The projected Operating Costs for the proposed project in the first full fiscal year when the project\* achieves target utilization (2021) are as follows:

Salaries:	\$ 8,014,168
Benefits:	\$ 2,163,825
Supplies:	\$ 2,552,818
Total Operating Expenses:	\$12,730,812

Patient Days: 14,002

Total Operating Cost per Patient Day: \$909

There is not a state standard for these costs.

\*includes expense for Emergency Room, Cardiac Cath Lab and Radiology

**Total Effect Of The Project On Capital Costs**

The projected Capital costs for the proposed project in the first full fiscal year when the project achieves target utilization (2021) are as follows:

Depreciation Expense:	\$2,593,726
Interest Expense:	\$2,638,830
Amortization Expense:	\$ 0
Total Capital Costs:	\$5,232,556

Patient Days: 14,002

Total Cost per Patient Day: \$ 374

There is not a State standard for these costs.

**MORRIS HOSPITAL & HEALTHCARE CENTERS**  
Modernization Project

**CHARITY CARE INFORMATION**

CHARITY CARE			
	2015	2016	2017
Net Patient Revenue	\$148,903,140	161,061,556	\$174,913,146
Amount of Charity Care (charges)	\$2,165,860	\$ 8,773,685	\$7,936,783
Cost of Charity Care	\$2,165,860	\$2,658,426	\$2,458,022

Sources: Annual Hospital Profiles and Morris Hospital



September 11, 2018

Ms. Courtney Avery  
Health Facilities and Services Review Board  
2nd Floor  
525 West Jefferson Street  
Springfield, Illinois 62761

**Re: Application for CON Permit**

On behalf of Morris Hospital & Healthcare Centers find enclosed an application for CON Permit. Also included is a check for \$2,500.00 payable to the Illinois Department of Public Health as a deposit on application fees.

The project is for the Hospital Modernization and Renewal of Infrastructure.

As you and/or staff have any questions, please contact me at 312.804.9401 or by email at [jmark@jsma.com](mailto:jmark@jsma.com).

Thank you.

Sincerely,

A handwritten signature in black ink, appearing to read "J. Mark", with a long horizontal flourish extending to the right.

Jeffrey S. Mark

Principal

**JSMA LLC**  
CONSULTANTS + ARCHITECTS  
1440 W. Taylor St, #743  
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